HOW TO READ THE MONEY ARTICLE

CHAPTER I

WHY IT SHOULD BE READ

To many thousands of newspaper readers the money article and the City pages upon which it appears is so much wasted space; a dull jargon of meaningless phrases, to be passed over in favour of the latest news and police court intelligence. It is the one part of the paper they never read. They do not seem to realize that much care and expenditure are lavished over the financial intelligence department for their benefit—especially if they have a little spare money to invest, or which might be invested to their profit. They disregard the money page, though it represents quite a large proportion of the newspaper for which they have paid. Business and economic affairs have, indeed, now assumed such wide importance that the tendency is for them to overflow into the general news columns.

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HOW TO READ THE MONEY ARTICLE

A GUIDE TO THE PROPER UNDERSTANDING OF THE CITY NEWS

BY

CHARLES DUGUID

FORMERLY CITY EDITOR OF THE "MORNING POST," THE "DAILY MAIL," AND "THE OBSERVER," AND CONSULTING CITY EDITOR OF "THE TIMES"

SEVENTH EDITION

BY

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PREFACE
TO THE SEVENTH EDITION
BY
COLLIN BROOKS

THIS unassuming little book has had a remarkable history. Intended as the merest guide-book to the financial tyro it has passed not only into repeated editions but through many printings. It has been issued no fewer than fourteen times in the span of a working life-time, and it may be assumed that a book in such demand was not niggardly reprinted at each reissue. As Mr. F. W. H. Caudwell, who revised the sixth edition, said of it, it has become a standard elementary work.

Its success was wholly due to the peculiar genius of its author, Charles Duguid.

Duguid was born in 1864, nine years before the publication of Walter Bagehot's "Lombard Street." His youth and adolescence were spent at a time when finance was still a mystery to the normal citizen, but far less of a mystery than it had been before Bagehot's power of clarification had given to the Money Market a savour of

romance. It was to be part of Duguid's work to carry forward, on a less elevated literary plane, perhaps, the work which Bagehot had begun.

In 1890 he became assistant editor to *The Economist* where he remained for two years. From 1893 to 1897 he was City editor to *The Pall Mall Gazette* and from 1897 to 1902 City editor to the *Westminster Gazette.*

It was during his tenure of the City chair of the *Westminster* that this book was conceived and written, in the same year as his fuller work "The Story of the Stock Exchange."

Duguid had made sufficient mark as a financial commentator and lover of the City to be invited to contribute an article on the Stock Exchange to *The Stock Exchange Souvenir,* published privately in a limited edition and sumptuous format to mark the opening of the new century. His two books added to his reputation. He was invited to desert evening newspaper work to become City editor of the *Morning Post,* a position he filled with marked success from 1902 to 1906.

It was then that his talents and aptitude for simple exposition of tangled subjects, and his wise and profound understanding of everything

appertaining to the City, attracted the attention of a newspaper proprietor famous for his flair in discovering the right men for the right places—Alfred Harmsworth, afterwards Lord Northcliffe. Charles Duguid left the tranquillity of the *Morning Post* for the vibrancy of the *Daily Mail*, to which he was City editor for the next fourteen years, combining with that arduous post the City editorship of the *Observer* from 1906 to 1911 and consulting financial editor to *The Times* from 1911 to 1920. In 1920 he deserted financial journalism for finance and died three years later.

Duguid's career as a financial journalist remains, as far as I am aware, unique in its scope. No man was better able than he to translate for the lay-public the mysteries of his craft. Thirty-four years ago the City page of a newspaper—the "Money Article" as he called it—was a dull sheet indeed. It was far from being the diversified page that is familiar to our own time. Jargon was much more freely employed. Illustrations and those tricks of typography which now lighten the page visually and assist the mind to grip the mental content of the page were unknown. Much of the modern ease with which a City page can be read is due

to his pioneer work in making plain what should never have been obscure. In any just assessment of values he cannot take rank with either Walter Bagehot or Mr. Hartley Withers as an exponent of finance and economics or as a writer of distinguished prose, but his level is not so far below them as to place him in a different category, and in knowledge of his subject he was not only one with his peers but probably first among them.

It is some years ago since I first suggested that what really widened the investing public to its present dimensions was the necessity to finance the War of 1914–18. When the Government of the day, with the able guidance of Sir George Sutton, educated the public into buying certificates it incidentally educated the smaller investor out of his fear of paper. Those who had hitherto felt a traditional desire to see their savings either within the keeping of a bank or tied up in concrete property—"as safe as houses" was a proverbial saying—began to shed their distrust of mere certificates. Between War Loan or War Savings Certificates and any other form of share certificate there is no great gulf fixed in the popular mind. When the war ended and thrifty people aspired to something more

than gilt-edged holdings could give them, they turned naturally to the stock market. It was this which so largely made possible the boom of 1928, when the City pages broke their bounds and financial news flooded the ordinary pages of the news-prints.

In addition to that trend there has come in this generation a race of citizens more deeply educated in primary economics than any other. Just as the popular papers of the 1890's catered for the products of Forster's popular education instituted in 1870, so the post-war popular press is catering for the products of the secondary schools and the newer Universities. People of this measure of education are well aware that the jargon of the money article is really an economic shorthand. They are anxious to read that jargon skilfully even if they have no direct investment interest.

This book in its seventh edition can therefore hope to appeal to an even wider public than it has served in its previous thirteen printings.

Mr. Caudwell, who revised the text in 1931, did his work well, and has much eased my own task, but I have ventured to give the book a thorough overhauling, not only to make its matter and examples "up-to-date" but also

to amend its original author's style. Duguid wrote flowingly and with an easy colloquialism, and his writing had the defects of its merits. Much of his idiom to-day would ring with a false note of jocularity or facetiousness, as my own will do thirty years hence. None the less, in making whatever alterations have seemed necessary, I have followed Mr. Caudwell's example and have endeavoured to keep the character of the work unchanged.

I have even assumed that the City pages to-day are still, as Duguid says of them, regarded as "a dull jargon of meaningless phrases" although my own generation of financial editors has very largely, following his leadership, reduced technicalities to a minimum and made exposition an integral part of the duty of recording financial events.

C. B.

PREFACE
TO THE FIRST EDITION

OF course any City editor and many other people could easily have written this little book. It is based, with kind permission, mainly on a series of articles the writer contributed to one of the Newnes weeklies and on certain contributions to other papers. The modest object of the book, even if not sufficiently indicated in its title, is explained in its opening chapter. Its chief aim is to enable the uninitiated to cope with the technicalities of the newspaper City page; but, here and there, especially in such chapters as those on "The Writer of the Article," "Prospectus Notices," and "Company Meetings," it also aims at showing how to read between the lines.

Those who know all about the matter may possibly deem some of the technicalities explained trivial and commonplace, but then, if they know all about the matter, they will recognize that these trivial and commonplace technicalities are just what puzzle people. The writer has been sorely tempted to be more exhaustive and

profound, in such chapters as that on "The Rates of Exchange Table," for instance; but, having resisted the temptation, he hopes the superficiality of the little book will appeal to those for whom it is written—those who, having many other things that claim their attention, are not averse to obtaining easily a general idea of how to read the money article.

C. D.

CONTENTS

On the other hand, there are those who open their newspapers first at the City page, and keep it open there. A little observation will disclose that there are those who closely scan every line of the City notes, who glance through the rest of the journal with diminished interest, or, in some extreme cases, do not glance through it at all. These people are nowadays to be found not only among those who go down to the City in motor-cars, but also among clergymen, country town shopkeepers, and others of almost every sort of occupation who have discovered that the science of money is really supremely interesting. In short, whereas the literary and news pages of a newspaper are of some interest to the thousands—they read them for amusement—the City page is of intense interest to the few—they read it for their pecuniary profit, and as an aid to the understanding of national and world politics.

"What are they all doing?" asked a lady of her husband, as they threaded their way through the noisy groups of stock-brokers and stock-jobbers in Throgmorton Street one afternoon. "They are doing each other," was the reply. As the lady had just been to her bank regarding a little investment, she might have been

more usefully interested in a less witty explanation.

So it is, perhaps, that the majority of readers regard the City page of a newspaper. But it might always be scanned with considerable interest, and frequently studied with considerable profit. Wrapped away in its unsensational columns and tabular arrangements of figures is often an item of news which does not find its way into the other columns of the journal until later—for the Stock Exchange and the Money Market are in the habit of receiving their news very early. The readers of the City notes of a certain evening paper were assured of the occurrence of the romantic Jameson Raid, with its immense political significance, many hours before the news columns of all the papers flared forth its details in big type. That is one instance of interest, and, though the Jameson Raid occurred as long ago as 1895, that does not mean that the City page has not often exclusive items of political and general news for its readers in these days. In 1931 the acute economic crisis was heralded in that section of the newspapers. The City, indeed, has a remarkable knack of anticipating events.

It is not the fault of the average newspaper

reader, perhaps, that he does not derive such interest and such profit from the City news as he might. It is his misfortune that because of some of its technical terms he cannot understand it fully.

That defect will be remedied, that wrong righted, it is hoped, in the pages of this little book. It is sought to define popularly all the technical terms and to say something explanatory of all the abstruse allusions which constantly crop up in financial articles. Here is an attempt to make dry bones live; that not the financier and his small class alone may take interest in the City, but also the man in the street, and the woman at home.

The game of finance is not so intricate that only few can understand it. The financial article is not much more undecipherable to the uninitiated than the report of a cricket match to someone who does not know the rules.

If it is not the fault of the general reader that he cannot understand the technicalities found in the City notes, it certainly is not the fault of the writer of them. Because of his subject the writer must be precise; he must use the terms of the trade; he cannot stop at the end of every paragraph to explain his meaning for the benefit of the amateur financier.

But the point is that amateur financiers have become so numerous in the land that it is high time somebody stopped to show them how to read the news essential to their financial well-being.

With the great growth in the number of companies in recent years, with the great extension of the limited liability system, there are a hundred who take interest in finance in this generation for every one who took interest in it fifty years ago. To each of these hundred, even if he has only some savings in National Savings Certificates, or a few spare pounds in the shares of a big store, the City page of his newspaper is of importance, and he will find it worth while to understand its contents from beginning to end.

Many questions arise before the average reader who attempts to understand the events recorded in the City page in his daily paper and thus derive the benefit for which he pays.

"Where is the money market?"

"How can money be dear?"

"I hold some Gramophones, and a financial paper says they must rise because of the big 'bear' account in them; how can this be, seeing that the 'bears' try to lower prices?"

"What are those Treasury Bills for which people are tendering?"

"What is contango?"

"I read that the carrying-over rate on such and such a stock is stiffer at this settlement. What does all that mean? My mother gets dividends on that stock, but we never hear from our broker about any carrying-over rate?"

"What is a stag?"

"How can I find from the City article in my paper how to invest £150 that I have put by?"

These and other simple questions are easily answered; but it has often been pointed out to the writers that they are, none the less, questions well worth the answering.

CHAPTER II

GENERAL VIEW OF ITS CONTENTS

For not much more than a century has the City article had a place in the newspaper at all. In the early years of the nineteenth century it was found in no newspaper; now it is a prominent feature in all, and its importance seems to be developing. Most papers now not only chronicle financial events in London, but pay considerable attention to the doings of Wall Street and other financial centres abroad.

Before 1825, the newspapers generally published the prices of the few stocks and shares that were dealt in; but anything in the nature of a money and stocks article was supplied by some broker who was willing to undertake the trouble in consideration of the advertisement derived from the appearance of his name in connection with his contribution.

Some commercial reports, dealing with various trades, appear in the papers to-day in much the same way. For instance, reports on business in copper, lead, and tin are usually supplied by Metal Market firms.

But reports as to movements of stocks and shares never appear now over a broker's name. Members of the Stock Exchange are not allowed to advertise. The place of these contributions has been taken by the regular financial article, which was inaugurated during the great Stock Exchange boom and subsequent collapse of 1825.

At that time the number of new loans and companies dealt in on the Stock Exchange was practically doubled, and mining shares were introduced for the first time. The excitement in the financial world, and the increased importance of the Stock Exchange, naturally attracted the attention of the Press. The regular City article was conceived and born.

Passing reference only need be made to the interesting fact that there was actually a financial paper in existence two hundred years ago, at the end of the seventeenth century. Called the *Collection for the Improvement of Husbandry and Trade*, it gave a weekly history of commercial and financial speculation and in one of its issues, in 1694, it was even referring to time bargains. But the real beginning of the modern financial article was in 1825.

Let us look at the City article to-day, after its

century of growth, that we may read and be able to digest it.

A general view of the Stock Exchange report, the City article proper, shows it to be divided, roughly, into departments. Whatever may be our favourite newspaper, we shall find its money and stocks article thus divided, treating of the departments one after another. The divisions represent the markets for the various kinds of stocks, just as if in describing the business of Covent Garden we were to deal consecutively with flowers, plants, cabbages, and so on. (Only, in describing the Stock Exchange, the report has to do with Government Stocks, Foreign Bonds, Home Rails, Foreign Rails, Industrials, Rubber and Tea, Oils, and Mines.)

Most of the big papers devote a separate paragraph to each of these markets. Speaking generally, (the nearer the top of the list a stock or share comes, the sounder, the more stable, the less speculative the type of security.)

(A glance at almost any City page will show that with this review of the markets there is much more—some comment on financial topics of current interest, the outline of a new company's prospectus, a review of the trade returns of the country, the figures of the weekly return

of the Bank of England, and so on. These will claim our attention by and by; at present it is interesting to note some of the general influences which are always affecting certain of the Stock Exchange departments just mentioned; influences to which the review is constantly referring.

The first thing with which we have to reckon, and to which later a chapter is devoted, concerns money itself. The chief influence which affects the money market, which makes the rates that borrowers have to pay high or low, is the plentifulness or scarcity of available money.

It may be thought by the man in the street, the small investor, that the condition of the money market has little to do with him; but it is a mistake so to think. Cheap money, or low rates, for instance, means a high price for his Government stock. Dear money, or high rates, means, in the long run, depressed prices all round; if it is due to excessive speculation, it may develop into a financial panic. Thus we see why, though the money market notes may be brief, they are never omitted.

The condition of the money market, as we have said, depends upon the plentifulness or scarcity of available money within the country. It may be very plentiful because trade is dull

and manufacturers and merchants do not require to keep it in employment; it may be scarce, conversely, because trade is brisk. In normal times it may also be scarce because much gold has gone abroad. Gold (when export is not temporarily prohibited) is always flowing from and to this country, and sometimes we lose more than is safe. That is why the Bank return, which shows these movements, is so closely watched.

It has just been hinted that the main influence which is always making itself felt on Government Stocks is the state of the money market. Like the best securities of other countries, they are also affected by the political constitution of the country, by considerations of peace and prosperity. Next, Foreign Government securities are mainly affected, in the case of European issues, by international political relations and by internal prosperity or poverty. In the case of some of the less sound South and Central American issues, the bonds are affected by the honesty or dishonesty of the Administration and by the insurrections which break out spasmodically in these States of which some are nearly always in default.

The main permanent influence in the Railway

market is the weekly traffic returns, which are in turn influenced by trade and the weather. In the market for South African gold shares the monthly returns of profits from the mines, together with the news of the discovery of rich or poor ore, are the points which sway opinion and are duly recorded; in the rubber and tea share market it is the price obtained for the produce of the trees that matters; and so on throughout each department of trade and industry.

All these items of news make their appearance, even if in only a line or two, in the City page, and, though to many readers they may appear commonplace and uninteresting, in reality they are the symbols of the fortunes of millions.

CHAPTER III

THE MARKETS, THE JOBBERS, AND THE BROKERS

It having been seen that the Stock Exchange report in the newspaper is split into divisions, dealing with the different markets, and that these markets are affected by certain dominant influences to which the article is always referring, the uninitiated will be aided to a better understanding of the matter if he thoroughly comprehends why the Stock Exchange is thus split into markets and what these markets are. For the simple exposition we may take for our text some words which are frequently seen in the papers: "Rubbers remained dull and uninteresting, with very little business passing; several jobbers who came into this market last year have, we understand, gone back to Industrials." Marked and inwardly digested, such a sentence as this is not only interesting to the small investor: it conveys a hint of practical utility.

There was a time when the Stock Exchange itself was only one market out of many. At the end of the seventeenth century the Stock

Exchange, or rather the company of stock-jobbers and stockbrokers, assembled in the Royal Exchange with mercantile brokers. Old plans of the Royal Exchange show us the oblong building, with a statue of Charles II in the middle, and the various markets, or "walks" as they were called, ranged round it. In the north-west corner of the building was the Silkmen's Walk, and next to it the Clothiers' Walk. In the middle, on the west side of the statue, was the Grocers' and Druggists' Walk, and, also in the middle, on the other side of the statue, was the "Brokers, etc., of Stocks Walk." Thus if anyone wanted to buy stocks he would pass through the other markets to the east side of the statue, knowing the exact spot in the vast Exchange to which to go.

So it is on the Stock Exchange to-day. Stock dealing outgrew the Royal Exchange and, at the beginning of the nineteenth century, the stock-jobbers settled down in an Exchange of their own—the Stock Exchange with its principal door in Capel Court, opposite the Bank of England; the triangular Stock Exchange with Bartholomew Lane for its base, bounded on its north side by Throgmorton Street and on its south side by Threadneedle Street. The many

hundreds of Stock Exchange firms all have their offices more or less immediately round about the building, these offices being particularly thickly clustered in the small area bounded by Throgmorton Street itself, Broad Street, Moorgate, and London Wall.

When it was in the Royal Exchange, the Stock Exchange consisted of only one market, practically only British Government securities being dealt in. Now, as we have seen, there are several great divisions, consisting of many more markets. The Consol market is there still, with its dealings in British Government securities; but many more markets have been added.

Until the year 1811 only twenty securities—mostly Home Government securities—were officially recognized on the Stock Exchange. Early in that year, however, were added American securities, and canals, docks and waterworks. Later in 1811, dealings began in railways, but it was not till 1845, at the time of the railway mania, that there was anything like a Railway market. In 1816 dealings in Foreign Government funds began on a larger scale, but the Foreign market was for many years a quite separate institution from the Stock Exchange. In 1825 dealings in Mines and Miscellaneous

companies began in earnest. Since then many more departments have been added.

These markets are geographically distinct in "the House." It would be possible to draw a plan of the Stock Exchange showing the exact spots where the various securities are dealt in.

The utility of this arrangement is clear. When you want to buy, say, some Randfontein shares, you give the order to your broker in his office. He knows that Randfontein shares are to be bought in the South African market, or the Kaffir Circus, as it is colloquially called. He goes into the Stock Exchange and walks direct to the exact spot where stand the jobbers who deal in Randfontein and other South African mining shares.

Your broker can thus execute your order at once. There is no need for any delay; no need to seek for some one who may happen to want to sell the Randfontein shares you want to buy. The jobber is always ready either to buy or sell, at the prices which he quotes. He is like the wholesale warehouse to which the retail shopkeeper (your broker) goes in the assurance that he can get the goods you, his client or customer, want.

There, in a nutshell, are the different func-

tions of the broker and the jobber. There have been agitations for the abolition of the jobber, as there have been agitations for the abolition of the middleman warehouseman; but both are exceedingly useful. If there were no definite market for the shares you wanted to buy or sell, the broker might experience much delay and difficulty in executing your order. Even as things are, he does often encounter considerable trouble in buying or selling securities in which there is only a "limited market"; that is, securities of which the total amount is small or which do not often change hands. But the point is that there are distinct markets in the Stock Exchange, and the Stock Exchange article in the newspaper, by its divisions, reflects them.

We now see the full meaning of our text. The jobbers in the rubber share market have nothing to do; they stand idly in their metaphorical warehouses, stocked with rubber shares; no brokers come to them because the public are sending all their brokers to buy or sell textile shares or motor shares. Accordingly some of the jobbers move from the one market to the other, where they will get more trade.

They actually change their positions in the

Stock Exchange; from beside a certain bench, say, they go to stand near a certain pillar. The broker who goes to buy Rubber Trust shares finds some old faces gone; the broker who goes to buy Courtaulds shares finds some new jobbers in that market ready to supply him.

The practical hint conveyed in such a sentence as that which we quoted is that, in the opinion of those best able to judge, the jobbers, there will be no activity in the rubber market for some time, and if you want to gain quick profits, or risk quick losses, you must turn your attention to that part of the money article in your newspaper which deals with industrial shares.

CHAPTER IV

THE MONEY MARKET NOTES

IT is fitting that a prominent place in the City page should be given to the article dealing with the money market, for, as has been said, the condition of the money market affects the position in each of the stock markets. Its influence is over all.

It should be understood that the money market is not a distinct market, as the stock markets are. To find the Kaffir market, for instance, you have only to go to one definite spot in the Stock Exchange. The money market extends from the Bank of England, in Threadneedle Street, throughout the whole length of Lombard Street, and wherever an important bank, discount house, or bill broker's office is situated.

In the money market men deal in money just as in Covent Garden they deal in apples. They buy or sell money in the form of loans, which they want for a day, or for a week, or to enable them to meet their engagements at the Stock Exchange settlement, or for a month, or for a

longer period. The price of a loan of £5000 for a week might be 9s. $7\frac{1}{3}$d. that being at the rate of $\frac{1}{2}$ per cent per annum. Perhaps, if we look in our paper, we shall see the money market news and rates set out something like this—

MARKET DISCOUNTS	Per cent
60-day Bank bills .	$\frac{9}{16}$–$\frac{5}{8}$
3 months bills .	$\frac{5}{8}$–$\frac{11}{16}$
4 " " .	$\frac{11}{16}$–$\frac{3}{4}$
6 " " .	$\frac{3}{4}$
3 " Tde. bills .	2–$2\frac{1}{2}$
4 " " .	$2\frac{1}{4}$–$2\frac{1}{2}$
6 " " .	$2\frac{1}{2}$–3

MONEY & DEPOSIT RATES	Per cent
Bank rate* . .	2
Banks' deposit .	$\frac{1}{2}$
Brokers' deposit call	$\frac{1}{2}$
" " notice	$\frac{3}{4}$
Day-to-day loans .	$\frac{1}{2}$
Weekly money .	$\frac{1}{2}$
Last Treasury Bill aver. . . .	12s. 8·05d.

The ruling ease in the short loan market was accentuated by the usual Saturday conditions. Those borrowers who wanted fresh money paid $\frac{1}{2}$ per cent and this rate also applied in some quarters to loans against bonds, although the rate for the latter type of accommodation ranges up to 1 per cent at the clearing banks. Credit supplies were so plentiful that balances remained unused. Current conditions in fact give no scope at all to those "over" in money.

There was really nothing doing in the discount market although "shorts" could have been sold to the banks at the usual $\frac{1}{2}$ per cent. Such business, however, is not particularly wanted in the market on a short Saturday morning, when money is plentiful. Three months' fine bank bills continued to be quoted at $\frac{5}{8}$–$\frac{11}{16}$ per cent, and with the $\frac{5}{8}$ per cent basis now established in the Treasury bill rate as the result of Friday's tender, the market is finding it easier to obtain first quality bank bills at that level.

Now these money market notes and rates will probably have no meaning for the ordinary reader, although they deal with a very important department of business, and they will

* Reduced from $2\frac{1}{2}$ per cent on 30th June, 1932.

need to be explained. As in every other market, supply and demand are the dominant influences. If the demand for money is big and its supply small, rates will be high; if the demand is small and the supply large, rates will be low. As in our example, the money notes usually show the state of the supply and demand and why they are in that state.

When money is borrowed for "short terms," for a day or so, or for a week or a fortnight, "fixtures," the borrower has of course to deposit securities. It may be stock or shares, and the rate he pays for the money is called the "loan rate." There is a great deal of borrowing for longer periods on the security of bills, which promise that the money shall be paid in, say, three months, in which case the rate the borrower pays for the money is called the "discount rate."

The money market report will sometimes be found speaking of "best bills," or "fine bills," or "best bank bills." These terms mean bills in connection with which no question of the money being forthcoming at the proper time ever arises. The discount rate on such bills is fixed only in accordance with the value of the money lent on the bill. In fixing it the lender makes no charge

for risk as to his never receiving his money back again, or as to his only receiving part of it, or as to any difficulty in getting it at the proper time.

It thus comes that usually two sets of quotations are given, one for best bills, and a higher one for "trade bills." Best bills may be $\frac{5}{8}$ per cent, and, in that case, the discount rate proper is $\frac{5}{8}$ per cent, the rate for bank bills backed by houses whose credit is unquestionable being taken as the standard.

Various influences (even, as we have seen, a Saturday morning) affect the money market with its loan rates and discount rates, and the money notes will be found constantly referring to these influences. Good trade engenders active use of money and increases the demand, and it may cause rates to be high over a lengthy period.

But there are influences more ephemeral. The preparation of the Government to pay the huge amount of interest on its securities every half-year, or the preparation of the railway companies to pay their dividends, temporarily lifts money off the market, so that rates are stiffened. When the payments are actually made the market is flooded with money and rates are eased. Or it may be found that money

has been borrowed in anticipation of the distribution of dividends, so that, when it comes, it has not so much effect.

The issue of a big loan or of a large amount of railway stock, or the falling due of instalments of purchase money for them, may temporarily bring money into strong demand. The payments which all of us have to make about quarter-day, or in Scotland at "term time," have their effect upon the money market too.

Then there is an extra demand for money at harvest-time, when cash goes from the market into the country to pay, say, the farm labourers and trickles back but slowly. There is an extra demand at holiday time every year, and for the Stock Exchange settlement payments twice a month. Also, about the end of every month some of the leading banks call in loans, gathering up as much of the money they control as they conveniently can, in order to show as large cash holdings as possible in the monthly statements which they publish. This is the "window dressing" condemned by the Macmillan Committee.

But all these influences on the money market are more or less ephemeral. Money collected to pay dividends and wages, money distributed

in holiday expenses and so on, returns to the market in a short time. Much more permanent influence on the market is normally wrought by shipments of gold to foreign countries or by the receipt of gold from foreign countries. When money market rates abroad are higher than they are here, gold, in the absence of artificial conditions, flows to the centre where it can find more profitable employment. That is why the Continental exchange rates, and money rates, and the weekly returns of the Bank of France and (in normal times) the Reichbank of Germany are watched with keen interest here; and especially the American exchange and the weekly return of the U.S. Federal Reserve Banks.

Gold tends to go to the United States in the autumn, when rates are high there because of the demand for money in connection with the moving of the huge crops; it also finds profitable employment there when there is a boom in Wall Street.

Every week the return of the United States Federal Reserve Banks and the New York Federal Reserve Bank for the preceding week will be found analysed, or, at all events, alluded to, in the leading London papers.

The amount of the gold reserve and the

amount of "legal tender," that is, paper money, are important items which receive close attention; so is the "loans and discounts" item, which shows how much the banks have lent the public; and so is the "deposits" item, which shows how much the public has at its command. Above all, because it sums up all, any increase or decrease in the "reserve" is noted.

But, while the London money market naturally regards all these foreign bank returns with interest and respect, it, of course, attaches more importance to our own Bank return—the weekly return of the justly celebrated Bank of England—to glance at which let us now proceed.

CHAPTER V

THE BANK RETURN ANALYSIS

THE Bank of England was established in 1694, in the reign of William and Mary. Its early career was chequered and there were times in the eighteenth century when its continuation was threatened. In 1720, at the time of the South Sea Bubble, it actually bid in competition with the South Sea Company for the taking over of the National Debt, its offers, fortunately, not being accepted. In 1797 the strain of the war with France was such that cash payments had to be suspended, and even in the nineteenth century there were three times suspensions of the Bank Act. Gradually, however, the Bank grew into the proverbially sound institution that we all know.

As all the clearing banks bank with the Bank of England, keeping only "till money" themselves, it may be regarded for money market purposes as the one bank of the country. Its figures are the figures of the whole—hence the importance of the Bank return.

This return is made up to every Wednesday night, passed by the directors at their meeting

BANK OF ENGLAND

Return for Week ended Wednesday, 2nd October, 1935

Issue Department

	£		£
Notes Issued—		Government Debt .	11,015,100
In Circulation . .	402,033,339	Other Government Securities . . .	246,316,174
In Banking Department . . .	51,609,494	Other Securities . .	1,130,013
		Silver Coin . .	1,538,713
		Amount of Fiduciary Issue	260,000,000
		Gold Coin and Bullion .	193,642,833
	£453,642,833		£453,642,833

Banking Department

		£			£
Proprietors' Capital .		14,553,000	Government Securities .		82,519,999
Rest		3,754,476	Other Securities—		
Public Deposits* . .		25,452,723	Discounts & Advances	£17,251,788	
Other Deposits—			Securities.	11,596,732	
Bankers' .	£80,874,574				28,848,520
Other A/cs.	39,134,834				
		120,009,408	Notes . . .		51,609,494
			Gold and Silver Coin .		791,594
		£163,769,607			£163,769,607

Both Departments	Amount, Oct. 2, 1935	Inc. or Dec. on Last Week	Inc. or Dec. on Last Year
	£	£	£
Note circulation	402,033,339	+ 3,869,151	+ 21,217,156
Public deposits	25,452,723	+ 5,901,361	+ 11,749,657
Bankers' deposits. . . .	80,874,574	− 6,366,724	− 26,165,884
Other deposits	39,134,834	+ 178,923	+ 2,002,304
Seven-day bills	—	—	− 5,060
Total outside liabilities . .	547,495,470	+ 3,642,711	+ 8,798,173
Capital and rest	18,307,476	+ 33,118	+ 26,018
Government debt and securities .	339,851,273	− 624,531	+ 2,219,607
Discounts and advances . .	17,251,788	+ 4,840,305	+ 4,577,864
Other securities	12,726,745	− 611,656	+ 1,673,664
Silver coin in issue department .	1,538,713	− 2,651	− 1,520,902
Coin and bullion (bank's reserves) .	194,434,427	+ 74,362	+ 1,873,954
Reserves of notes and coin in banking department . . .	52,401,088	− 3,794,789	− 19,343,202
Proportion of reserve to outside liabilities—			
(*a*) Banking Department only ("proportion") . .	36·0%	− 2·5%	− 9·4%
(*b*) Gold stocks to deposits and notes ("reserve ratio") .	35·5%	− 0·2%	− 0·3%

* Including Exchequer, Savings Banks, Commissioner of National Debt, and Dividend Accounts.

every Thursday, immediately placarded on the wall of the Bank and analysed in the evening papers every Thursday, and the morning papers every Friday. In order to understand their comments upon it let us pass the items briefly and simply in review. On p. 27 we give a copy of one of the returns.

The comments and criticisms upon these figures in the newspaper financial notes centre mainly upon the "reserve." No such item as the reserve is mentioned in the return, it will be seen, but it consists of the last two items in the return of the Banking Department, notes £51,609,494, and gold and silver coin £791,594, so that the reserve in the return here taken as an example, is £52,401,088.

What is this reserve? It is all the notes the Bank has in its till and all the gold and silver coin, after it has set aside a proper amount of gold coin and bullion as a backing for the notes it has issued. What this proper amount is may be gathered from a glance at the first part of the return, headed "Issue Department." The Bank willingly issues as many notes as the requirements of commerce demand, so that the amount of notes issued varies from week to week. But against these notes the Bank is compelled by

law to hold a backing. It does not do to flood a country with paper money unrepresented by tangible assets.

Part of the backing consists of an amount which the Government has for ages owed to the Bank, the £11,015,100 being a practically unchangeable quantity; to this are added Other Government Securities, £246,316,174, Other Securities, £1,130,013, and Silver Coin, £1,538,713. These four items, added up, come to £260,000,000, which is the amount of what is known as the fiduciary note issue of the Bank.

The surplus of the actual note issue over the fiduciary note issue has to be backed by the setting aside of gold coin and bullion which the Bank holds. This surplus is the "proper amount" to which reference has just been made. After deducting this amount (in gold coin and bullion) from the total of gold bullion, gold and silver coin and notes in both Departments, the remainder, being gold coin, notes and silver coin in the Banking Department, forms the Bank's reserve, and (the bigger the reserve the stronger, of course, the position of the Bank.)

How is the Bank's stock of coin and bullion and its reserve depleted or augmented? It

must be by withdrawals of gold for abroad, or by receipts of gold from abroad. Late every afternoon the Bank issues a statement, placarded on its walls like its weekly return, showing the amount of gold that has been withdrawn for foreign shipment, or received from abroad, during the day, and generally whither it has been sent or whence it has come. The newspapers record these movements and add them up at the end of the Bank's week.

The total stock of coin and bullion in a given return is, say, £193,642,833 + £791,594 = £194,434,427. Supposing we compared it with the total stock in the preceding week we might find that it showed a decrease of £670,997. We know from the daily returns that, say, £846,000 has been withdrawn for export, and so we know that £175,003 (£846,000 − £670,997) must have been returned to the Bank from within the country, and the internal circulation of coin reduced by £175,003.

That settles the question of the Bank's stock of coin and bullion; because only £175,003 in coin has been returned from internal circulation against £846,000 in coin and bullion exported, the stock is £670,997 lower than in the preceding week.

The reserve, we find by comparison with the preceding week, is, say, only £380,952 lower, because, although the Bank lost £670,997 in coin and bullion, its holding of notes was augmented by £290,045 returned from circulation. The amount of notes in circulation is now stated in the return. Before 1928 the figure could be obtained only by subtracting the amount retained by the Bank from the total issued.

In our glance at the reserve and what affects it, we have thus passed in review all the items in the Issue Department and the last two items on the assets side in the Banking Department statement. The general meaning of the items on the liabilities side is easily grasped. The proprietor's capital of £14,553,000 is, of course, the amount of the Bank of England stock held by the fortunate stockholders, on which they receive dividends according to the profits which the Bank directors make for them. The amount of these profits is indicated in the next item, Rest. This item is never allowed to go below three millions sterling. That three millions may be regarded as the reserve of the Bank as regards its stockholders. The other reserve, of which we hear so much, is the reserve as regards the public. But the surplus over three millions

sterling at the end of the half year is treated by the directors as the amount available for dividend.

We next come to the item of Public Deposits. This item of £25,452,723 does not by any means represent the deposits of the public; it represents mainly the national deposits, that is the money deposited with the Bank by the Government. It includes the Exchequer, Savings Banks, Commissioners of National Debt, and Dividend accounts. It frequently changes, as the revenue of the Treasury or other Government departments is augmented, or as payments are made to Government contractors, or as dividends are distributed on the Funds.

The item which represents the deposits of the public is the next one, Other Deposits, £120,009,408. That may be termed, as it often is termed, the market's supply of cash. It represents, as shown in the statement, not only the money deposited by people who bank directly with the Bank of England, but also the money deposited by people at the other banks, for these banks in their turn deposit a portion of the money with the Bank of England, the Bank of England being the bankers' bank. At the time of the year when most people pay

their income tax, an impoverishment of the Other Deposits (Bankers') and a corresponding enrichment of the Public Deposits is naturally shown; the Other Deposits (Bankers') have their revenge when the dividends on the War Loan and other Government securities are distributed.

Just as Public (or Government) Deposits and Other Deposits are shown on the liabilities side in the Banking Department return, so are Government Securities and Other Securities shown on the assets side. The item of Other Securities is closely watched because its changes indicate the changing indebtedness of the market to the Bank. When money is difficult to obtain in the "outside market," borrowers often go to the Bank of England, depositing Other Securities for their loans. An increase in the item Other Securities indicates that the indebtedness to the Bank has been increased and that money rates are likely to remain high for a time; a decrease indicates that loans have been repaid to the Bank and that there is not so much stringency in the market.

We have now gained an idea of what the items of the Bank return mean sufficient to enable us to follow it intelligently, although

the factors affecting the Bank return are many and complicated, and the figures of the various items therefore convey only general information. But we see how closely each item is bound up with the position in the money market, and there is nothing ambiguous about the figures of the reserve, which are precise and convey an exact meaning.

If the reserve is low and gold is flowing abroad, the Bank directors are likely to raise the Bank rate; if the reserve is high and gold is coming in or showing no sign of going out, the directors are likely to lower the Bank rate. Their decision is made at the Thursday's meeting when they examine and publish the return.

The Bank rate is nominally the rate at which the Bank of England itself will discount those best three months' bills; it is the condition of the money market expressed in one figure; it is the official standard—it is often called the "official minimum"—by which money rates throughout the country are more or less regulated.

To raise the Bank rate is to raise the price of money throughout this country, and to attract gold from foreign centres where the value of money is, for the time being, less. The Bank

directors before raising it endeavour to ensure that the advanced rate shall be "effective." It would be futile to raise the official or nominal standard if rates all round were low because money all round was plentiful. To make the Bank rate effective the directors often borrow in the market, thus denuding it of its supplies.

To say that to raise the Bank rate is to raise the price of money throughout the country, is not to show how such result is achieved. The impression is given of a compulsory increase in money rates whenever the Bank of England desires to raise the official minimum, but this is not so. The true index of the price of money is the market rate of discount, which is the rate which three months' bank bills will fetch in the market.

The banks put a large proportion of their resources into bills as the most liquid form of investment. The funds are obtained from their customers, current account holders and depositors, to the latter only of which is interest customarily paid. By agreement—unwritten but understood—the deposit rate (the rate of interest allowed on deposits at seven days' notice) is adjusted to rise and fall with the Bank rate and it follows that where the banks have to pay

more for what they borrow, they will charge more for what they lend. Advances to customers and to the stock and bill brokers are accordingly made dearer and this charge, where possible, is passed on by brokers to their clients. Thus is the market rate of discount increased.

There is nearly always some discussion in financial articles whether the Bank rate should be raised or lowered or allowed to remain where it is, or, in the case of its having been changed, whether the change was justified. The shrewd judge can often forecast the decision of the Bank directors, though, of course, no one can be certain of the decision until the notice is actually posted.

CHAPTER VI

THE RATES OF EXCHANGE TABLE

Every complete City page contains a table showing exchange rates. These have an important bearing on the subject of the money market which we have just been considering.

The table consists of the names of the principal commercial centres of the world, with a figure attached to each.

On the next page is a specimen from the columns of *The Times*.

Many books have been written on this subject of exchange, most of which are exhaustive and consequently most intricate books. It will suffice to write a few simple words to give the ordinary reader some general insight into the subject, and to give some idea of its importance and its bearing upon every financial transaction, even upon a simple purchase of stock or shares.

Although these exchange rates are published mainly for the information of those who have to send money to, or receive it from, foreign countries, they affect a much wider field. To the

Following is the list of foreign exchange rates issued under arrangements made by the London banks; it shows the range within which business was transacted on Saturday. Bank rates are indicated by the figures given in parentheses following the place names—

Place	%	Method of Quoting	Par of Exch'ge prev. to Sept. 20, 1931	Oct. 5	Oct. 4
New York	(1½)	$ to £	4.86⅝	4.88⅝–89¼	4.89⅞–4.90
Montreal		$ to £	4.86⅝	4.97–98¼	4.98–99½
Paris	(3)	Fr. to £	124.21	74¼–74⅜	74$\frac{5}{16}$–74½
Brussels	(2)	Bel. to £	35.00	28.95–29.00	28.97–29.03
Milan	(5)	Lire to £	92.46	60–60¼(*f*)	60–60½
Switzerland	(2½)	Fr. to £	25.22	15.02–15.05	15.03–15.07
Athens	(7)	Dr. to £	375.00	513§	514§
Helsingfors	(4)	M. to £	193.23	226⅝–227⅝	226⅜–227⅜
Madrid	(5½)	Pts. to £	25.22	35$\frac{13}{16}$–36	35$\frac{13}{16}$–36
Lisbon	(5)	Escu. to £	110.00	109⅞–110⅜	109⅞–110⅜
Amsterdam	(6)	Fl. to £	12.11	7.23–7.24½	7.24–7.26
Berlin	(4)	M. to £	20.43	12.14–12.18*a*	12.16–12.20
Vienna	(4)	Sch. to £	34.59	25–27	25–27
Budapest	(4)	Pen. to £	27.82	16½*§	16½*§
Prague	(3½)	Kc. to £	164.25	117⅝–118⅛	118–118⅝
Danzig	(6)	Gul. to £	25.00	25¾–26¼	25⅞–26⅜
Warsaw	(5)	Zloty to £	43.38	25¾–26¼	25¾–26¼
Riga	(6)	Lats to £	25.22	14½–15½	14½–15½
Bucharest	(4½)	Lei to £	813.60	621§	622§
Constantinople‡		Pst. to £	110.00	611§(*h*)	612§
Belgrade	(5)	Din. to £	276.32	209–219	209–219
Kovno	(6)	Lit to £	48.66	28⅝–29⅝	28¾–29¾
Sofia	(6)	Lev. to £	673.66	385–415	385–415
Tallinn	(5)	E.Kr. to £	18.16	17¾–18¾	17¾–18¾
Oslo	(3½)	Kr. to £	18.16	19.85–19.95	19.85–19.95
Stockholm	(2½)	Kr. to £	18.16	19.35–19.45	19.35–19.45
Copenhagen	(3½)	Kr. to £	18.16	22.35–22.45	22.35–22.45
Alexandria		Pst. to £	97.50	97⅜–97⅝	97⅜–97⅝
Bombay	(3½)	Per Rup.	1s. 6d.	1/6$\frac{3}{32}$–1/6$\frac{5}{32}$	1/6$\frac{3}{32}$–1/6$\frac{5}{32}$
Calcutta	(3½)	Per Rup.	1s. 6d.	1/6$\frac{3}{32}$–1/6$\frac{5}{32}$	1/6$\frac{3}{32}$–1/6$\frac{5}{32}$
Madras	(3½)	Per Rup.	1s. 6d.	1/6$\frac{3}{32}$–1/6$\frac{5}{32}$	1/6$\frac{3}{32}$–1/6$\frac{5}{32}$
Hong-Kong		Per Dol.	—	2/0⅞–2/1¼	2/0¾–2/1
Kobe	(3.65)	Per Yen	24.58d.	1/2–1/2$\frac{1}{16}$	1/2–1/2$\frac{1}{16}$
Shanghai		Per Dol.	—	1/6¾–1/6⅞	1/6¾–1/7
Singapore		Per Dol.	2s. 4d.	2/4–2/4¼	2/4–2/4¼
Batavia	(4)	Fl. to £	12.11	7.22–7.24	7.22–7.25
Rio de Janeiro		Per Mil.	5.90d.	2¾–⅞d.(*d*)	2¾–2⅞d.
Buenos Aires		Paper Pes. to £	11.45	17.70–90(*b*)	17.80–90
Valparaiso†		Pesos to £	40.00	119(*e*)	119
Montevideo		Per Peso	4s. 3d.	20½–21(*c*)	20½–21d.
Lima	(6½)	Soles to £	17.38	19.50	19.50
Mexico		Pesos to £	9.76	17¼–18¼	17¼–18¼
Manila		Per Peso	24.66d.	2/0⅜–2/0⅝	2/0⅜–2/0⅝

(*a*) Registered marks are quoted at a discount of 48–53 per cent.
(*b*) The official rate is 15p., sellers, and the average remittance rate for importers 17.02*p*.
(*c*) The official rate is 30$\frac{13}{16}$d., sellers.
(*d*) The official rate is 4¼d., sellers.
(*e*) Latest "export" rate.
(*f*) Rate for conversion of lire into sterling for payments of the Bank of England in respect of debts due to persons in Italy for goods and freight, 60.42 lire.
(*h*) Rate for conversion of Turkish currency into sterling for payments to the Bank of England in respect of debts due to persons in Turkey for Turkish goods, 615 pst. to £.

* Official rate. † 90 days. § Sellers. ‡ Stamboul.

shareholder who has investments in foreign companies, in the Argentine railways, for instance, the rate of exchange is all-important. For the receipts of the Argentine railways are in pesos, though they pay their dividends in pounds.

The figures given in our specimen table, which are the current rates of exchange at the places named at the time of writing, mean that, for the purpose of sending money, a sovereign is worth $74\frac{3}{8}$ French francs, 12·18 German marks, and $4{\cdot}89\frac{1}{4}$ American dollars. A few days hence a sovereign may be worth only $73\frac{3}{4}$ French francs. What is the meaning of the change and what causes it?

At the present time (1935) the matter is complicated by the fact that in 1931 Great Britain departed from the Gold Standard and France did not. When all nations are on a common gold standard, the representative coin of each, known as the standard unit, is worth a known amount of gold. A given number of £'s sterling equals a certain amount of gold and a given number of French francs equals a certain amount of gold. If the worst came to the worst, the coins regarded as metal would have a known value, no matter what other factors affected

their relative value as coinage. When £'s and francs were both on gold the Mint Par of Exchange (that is the relative value of each on a common basis) was 124·21 francs to the £, because the amount of metal in that number of francs would make one English £. The departure of Britain from gold has affected the equation, but in order to make clear the workings of the foreign exchange market without too much confusion in the mind of the ordinary reader, we will assume that a common gold standard is still in being, as it may well be before very long.

We know that sovereigns and francs have a standard value, and that, when no matter of remitting money between England and France enters into the question, it takes 124·21 francs to equal a sovereign, that being the parity value, shown in brackets usually in the exchange table in our newspaper. This is an ascertained fixed fact. It is, therefore, in the matter of the transmission of money that fluctuations in the exchange rate arise.

Suppose L of London had to send P of Paris the sum of £100 or 12,421 francs. If there were no organization of exchange business, he would get the money in cash and proceed to send it. He

would have to pack it carefully and pay carriage on the package, and also pay for insurance on such a valuable parcel, besides losing the interest on the money while it was in transit. In fact, to send it would cost him a good deal more than one penny in the pound.

Now, on his way to despatch his money, L meets his friend LO, of London, and learns that PA, of Paris, owes him, LO, the sum of £100 or 12,421 francs. An idea naturally strikes them. Let L pay LO the sum he owes to P and let PA pay P the sum he owes to LO. By that means the debts are settled, no money has to cross the Channel at all, and the trouble and expense of freightage and insurance are saved. It is an exchange operation.

Exchange business is organized on the simple principle here exemplified. There are hundreds and thousands of business people in London owing money to people in Paris, and *vice versa*; and the debts are written down on pieces of paper, called foreign bills of exchange, which generally find their way into the hands of the bill-brokers and banks. The banks buy such bills from the brokers in order to acquire balances in foreign countries. Thus when L has to pay £100 or 12,421 francs to P he need

not rely upon the chance of meeting LO. He goes to an exchange bank and buys a bill drawn by the bank on its balance in the foreign country in favour of P. L sends the bill to P, who with it collects the money in Paris, and thus no money has to pass between the two countries.

It is the supply and the demand for these bills of exchange which cause the rate of exchange to fluctuate. If bills are scarce because people in Paris do not owe people in London much, the rate of exchange may be 123·83; that is with his £100 L could send P only 12,383 francs. He has, therefore, to pay a little more for the bill, remitting 12,421 francs, but not so much as it would cost him to send the amount in gold. If there is not much demand for bills on Paris in London, then the bankers may quote the rate of exchange 124·50, and L would obviously have to pay less instead of more than £100 for the bill representing 12,421 francs which he has to send to P.

It will be understood that all this is mere illustration of principle in a simple and convenient form. As a matter of fact, in practice, most exchange transactions of the kind are settled in London; but that does not affect the principle that is illustrated.

prevent it going, or to attract it back again, by making money dear here; and, if money is dear here, it means that gilt-edged securities will be sold and that prices will fall, and that Stock Exchange settlements may be difficult, and that your bank will pay a higher rate on your deposit. In fact, the little table of foreign exchange rates is of more interest and importance than ninety-nine people out of a hundred imagine, even among those to whom finance is not altogether a closed book.

This is shown even by what has been said here, which has merely touched the fringe of an extremely complicated subject. Only a simple example has been taken; for instance L might not buy a bill on Paris, but might draw it himself payable by himself in London, in which case P on receiving it sells it in Paris to people who sell it again, and it thus would pass through *several hands before being paid finally by L.* Then again exchange operations are not regulated entirely by the commercial transactions between any two countries themselves, but also by their transactions with other countries. A merchant sometimes finds that the cheapest way to remit to Paris is to buy a bill on Brussels and with it obtain in Brussels a bill on Paris.

Then again we have taken into account only short or "sight" bills; in the case of, say, three months' bills, questions of credit and interest come into consideration. But by avoiding complications the attempt is made to give some clear idea of what is conveyed in the term "rates of exchange," and what is conveyed by their quotation every day in the money article.

To some, the figures in the little exchange tables printed in the money article present initial difficulties. For instance, one may know that "Paris 74⅜" means that 74⅜ French francs go to an English sovereign, but what is the meaning of "Montevideo 20½"? There are certainly not 20½ Uruguayan dollars in the sovereign.

Well, it is simply a matter of difference in the method of quotation. The figures given in the "Course of Exchange," that is, the table of rates negotiated here on foreign centres, represent in the majority of the principal cases the number of standard coins of the country in question—French francs, German marks, Italian lire, and so on—that is equivalent to one pound sterling, just as in the table of rates of exchange on London telegraphed from the foreign centres. But there are some important exceptions to

this rule. Uruguay quotes the number of pence to the peso, and this method is adopted also with many other rates, both on 'Change and in the table of exchanges telegraphed from abroad; the values of the Brazilian milreis, Argentine dollar, Japanese yen, and Indian rupee are all denoted by a pence quotation in the rates of exchange table.

Mention of the Indian rupee reminds one of another difficulty that often irks the newspaper reader—the method used to state lakhs of rupees. A lakh is 100,000 rupees, so that ten lakhs is 1,000,000 rupees; but in order to mark the number of lakhs the comma is put after the 10, so that the ten lakhs appear thus—10,00,000.

CHAPTER VII

BULL ACCOUNTS AND BEAR ACCOUNTS

Frequent reference is made in financial articles to those denizens of the Stock Exchange menagerie, the bull and the bear. We are always reading, especially in the more technical market summaries, of bull accounts and of bear accounts, of weak bulls, of cornered bears, of stale bulls, of bear raids, of bull campaigns, and so on.

It is doubtful, however, whether a great many people outside the Stock Exchange are quite clear as to the meaning of these terms. They are used glibly enough, of course. Even he who has never experienced the fascination of a Stock Exchange transaction in his life, who has never had any money to invest, will refer with a smile to the bulls and bears of the Stock Exchange. Nay, further, he is able to tell you that the bulls are those who buy, and the bears are those who sell. He may even add that the bulls make prices go up, and the bears make them go down, but if he adds this he is woefully wrong.

To put it simply, we should say that the bull is

the speculator who wants certain shares to go up because he has bought them with the idea of selling them again. He is a bull of those shares. The ordinary investor who has bought shares, of course likes to see them go up, but he does not want to sell them again; he has bought them not for that purpose, but that he may derive income from the dividends. He is not a bull in the ordinary sense.

In most cases the bull has not even paid for the shares he has bought, and, moreover, however his speculation may end, he never will. He buys the shares with the hope that before settlement arrives he will be able to sell them again at a higher price. If he succeeds, instead of having to pay his broker for the shares on settlement day, which comes on the Stock Exchange twice a month, his broker will pay him the difference between the price at which the shares were bought and the price at which they were sold. In receiving this difference he closes his bull account at a profit.

If the shares do not rise before the settlement day, the bull will probably get his broker to carry them over. This means that he will pay certain expenses in order to go on longer in the hope that the shares will rise. If, after a time,

hope deferred makes his heart sick, he will sell the shares at a lower price than that at which he bought them. In that event he will send his broker a cheque for the difference between the two prices, in other words, he will close his bull account at a loss.

To put the position of the bear in a similar way, we will say that (the bear is the speculator who wants certain shares to go down because, without possessing them, he has sold them with the hope of buying them again at a lower price.) He is a bear of such shares. The ordinary investor who has sold shares would probably rather see them fall than rise; he would be chagrined to see that if he had kept them a little longer he could have sold them at a higher price. But he does not want to buy them again; he has sold them because he possessed them and wanted to be rid of them. Although he has sold, he is not a bear.

The bear does not give up the shares he sells, and, moreover, however his speculation may end, he never will. He may be able to buy the shares again before settlement day arrives at a lower price, and he thereupon merely receives the difference from his broker. He can continue to carry over at the settlement just as the bull

did, paying certain expenses. If the price will not fall, and hope deferred makes *his* heart sick, he will buy at a higher price than that at which he sold and have to send his broker a cheque for the difference between the two prices; in other words, he will close his bear account at a loss.

Thus we see that a bull is not so much one who has bought as one who is awaiting an opportunity to sell; and that a bear is not so much one who has sold as one who is awaiting an opportunity to buy. As prices rise, the bulls come in and sell, and thus depress them; as prices fall, the bears come in and buy, and thus support them. So we see how it is wrong to imagine that bulls make prices go up, and that bears make them go down; and we at once understand that apparently contradictory jargon in the Stock Exchange news in the newspapers which tells of the market being depressed by the existence of a big bull account, and of the market being supported by the existence of a big bear account. In the one case a lot of bulls in the market want to sell; in the other case a lot of bears in the market want to buy.

Mention has just been made of expenses which both bulls and bears have to meet when

they want to carry over their bargains, that is, to continue their accounts, instead of settling upon settling day. The bull, of course, ought to find money to pay for the shares he has bought, but instead of that he pays interest on the money, which is called "contango." The bear, of course, ought to find the shares which he has sold, but instead of that he pays a rate on shares borrowed which is called "backwardation." These two terms, which appear in the Stock Exchange report at practically every settlement time, often puzzle, but here we get a general idea of their meaning.

Of course, it is true that a "bull campaign," in which the most favourable views are circulated as to the position of the shares, may succeed in raising their price. It is equally true that a "bear raid," in which all that is unfavourable is disseminated, may depress their price. But the time comes when the "bull campaign" turns into a "stale bull account," that is, when the bulls are anxious to sell, even at a loss, especially when they are "weak bulls," people who have purchased far more than they can afford to pay for. The time also comes when the bears find it necessary to "cover," that is, to buy back, in fear, the shares they have sold.

Sometimes, when the shares are scarce, and the market easily manipulated, there is a "bear corner"; the bears are unable to obtain the shares, which are run up to enormous prices. Probably the most sensational corner on record took place in New York in 1901, when two rival railroad groups, bidding against each other, acquired practically all the available stock of the Northern Pacific Railroad. In one day the stock soared from 170 to 700, afterward falling to 325. The immense losses suffered by the Northern Pacific bears spread panic throughout the whole stock market for a time.

In London a famous "bear squeeze" ran the £1 shares of Warner's Safe Cure Company to £90. An interesting account of this episode is to be found in Volume II of *Leaves from My Life*, by H. Osborne O'Hagan, who played some part in it. The episode is also the basis of the recent novel *Gay-go-Up* by Barnaby Brook. But such remarkable events are, of course, altogether exceptional.

CHAPTER VIII

PROSPECTUS NOTICES AND CRITICISMS

VERY often among the City news in a newspaper there will be found the notice of the prospectus of a new company. This notice is usually colourless. It expresses no opinion, and states only bald facts culled from the prospectus itself. It should be most distinctly understood by everybody, although there is ample evidence that it is not so understood, that such a notice of a prospectus is not a recommendation to subscribe for the shares which are offered.

Your newspaper may be the best of all newspapers, its City notes the ablest of all City notes, yet the company the issue of whose prospectus it announces may be the rottenest of all companies. It tells you, as the bare prospectus notice usually does,(that with such and such a capital such and such a company has been formed to take over such and such a business, that the purchase price is so much, and that so many shares are offered for subscription, but because it tells you this, you are not to conclude

that it is recommending the shares for your subscription.

Such a notice merely finds place on the page in order to direct the attention of the reader to the advertisement of the prospectus which appears elsewhere. It is inserted for the benefit of the advertiser, the promoter of the company, rather than for the benefit of the reader, although, on the ground that all knowledge is useful, it may benefit him as well. But if the knowledge conveyed by the colourless notice that the prospectus has been issued is useful, the knowledge of the reason of the colourless notice, and that it is not a recommendation, is more useful still.

Sometimes there will be found on the City page one of these colourless notices and, on another part of the page, a criticism of the prospectus. The one is the customary concession to the advertiser or to the advertising agent; the other is the expression of the opinion of the paper for the benefit of the reader. But as a general rule the great morning papers contain the prospectus notice alone. There are, as most people are aware, one or two exceptions, but in most cases newspapers either avoid prospectus criticism entirely, or, at most,

append to the notice one or two more or less perfunctory remarks. Even in the columns of those bold papers which depart from the general custom, a company prospectus is seldom subjected to out-spoken criticism. This reticence is partly due to a desire not to offend advertisers and partly to the English law of libel which is a great protector of scoundrels.

Which is the better course to pursue need not be argued here; there is something to be said on each side. Absence of criticism does little harm if it is thoroughly understood by the reader that his paper seldom, if ever, criticizes a prospectus, be the company never so rotten, and that the colourless notice is merely to commend the prospectus advertisement to his attention, and not to his favourable attention.

Nevertheless, it does seem that harm is done negatively, and that a great opportunity of saving the investor from the trickery of the promoter is wasted by the powerful paper which is ready enough to express its opinion and advice upon almost every conceivable matter but a company prospectus. Moreover, the great paper, in its silence, occasionally cuts a rather absurd figure when from the columns of some less dignified contemporary or

contemporaries come indisputable and undisputed disclosures of the unsoundness of the company. A case has been known in which the company promoter himself, overwhelmed by the tirade of criticism, has admitted the hopelessness of his position, even to the extent of withdrawing his prospectus, while a dignified paper which had published the usual non-commital notice remained silent.

Where prospectus criticism appears in a newspaper's City page, it is necessary to know how to read it. Should the merest breath or hint of disapprobation appear in one of the great organs which have been described as never offering criticism, because, practically speaking, they never do, then that hint is of exceedingly great weight. The prospectus must indeed be bad to draw an adverse word from such a source.

One or two high-class journals, it may be mentioned, make a practice of offering restrained comment on prospectuses for the benefit of the public, and this the reader should sift and weigh for himself. Where a prospectus is merely a pretext for obtaining money from the public for the benefit of the promoters, some papers do good service to their subscribers by refusing to print it at all, and at the same time publishing

a warning against applying for the shares. But this, of course, can only be done in flagrant cases.

Some companies whose prospectuses have been much criticized have become remarkably successful. Some financial writers, it should be remembered, are ever carping, and nothing is more easy than to carp at a prospectus. Knowing the ways of company promoters in general, one can forgive a little pessimism; but one should not be misled by it.

Mere general statements that the prospectus seems to show over-capitalization, that the purchase price seems high, and so on, should not be given too much weight. To be effective, the criticism must back its statements by demonstration. To prove over-capitalization, it must show that the profits do not yield a fair return on the capital, and have no prospect of doing so; to prove that the purchase price seems high, it must point to the amount for which the promoter obtained the business. Although profits and purchase price must both be disclosed, any deduction from them is left to the reader, to whose help the newspaper comes. Prospectuses can all be so easily criticized, that a prospectus criticism, to be worth anything, must be incisive,

and based, not on surmise and opinion, but on demonstrable fact.

One thing it is unwise to forget. The character of the reception of a new offer of capital in the City depends very much on the reputation of the men who make it, and apparently captious criticism of a prospectus which in itself seems excellent may be offered by a newspaper not without good but undisclosed reason. The law of libel often prevents frankness about the personalities behind the issue.

While we are talking about prospectuses it will be useful to say a few words about that kind of prospectus often seen in the advertisement columns of the newspaper, which has no accompanying form of application and is headed by a statement that the particulars given are "for information only" and must not be taken as an invitation to subscribe for the shares. Usually the company issuing such a prospectus is not quite new, and in all cases the whole or a large part of its capital has already been subscribed. The announcement is made to obtain permission for Stock Exchange dealings in the shares, or to get them quoted in the Official List. It is the company's introduction to the public, demanding, of course, some indispensable formalities.

CHAPTER IX

LETTERS OF ALLOTMENT AND REGRET

In the financial papers and some of their chief lay contemporaries the little paragraph stating that letters of allotment have been posted follows within a few days the paragraph noticing the prospectus. This little paragraph, a line or two in length, shows the effect of the prospectus. It informs us that the company will proceed to business; that the prospectus has not been, at any rate quite, a frost; that, with the subscriptions for shares they have received, the directors have decided to go forward with their enterprise; that the subscriptions will not have to be returned because an insufficient amount has been subscribed on the prospectus invitation. The letter of allotment, of course, is the document sent to the subscriber by the directors informing him that, in consideration of his application and the instalment he has paid, so many shares in the new company have been allotted to him.

To the reader of the newspaper who has applied for shares in the company, the notification

may be superfluous. Before his newspaper comes to hand he will probably have received the allotment letter itself. He will, of course, most carefully keep it. It gives him a valid title to the shares. It represents the share certificate, that is the shares themselves so far as they can be represented by paper. The letter of allotment takes the place of the share certificate until such time as all payments on the shares have been made, when the shares are complete. The subscriber will then receive the share certificate in exchange for the letter of allotment and banker's receipts which it comprises, all of which he will be called upon to deliver.

Sometimes the newspaper paragraph contains another couple of words. "Letters of allotment *and regret* in the such and such company have been posted." This means that with the allotment letters the directors have had to issue other notifications expressing their regret to some applicants that they have been unable to allot them the shares for which application has been made, which implies, of course, that the invitation of the prospectus has been so acceptable that the number of shares offered has been over-subscribed, that there are not

enough to go round to all those who have applied for them.

It is, unfortunately, necessary to point out that to read such a paragraph in a newspaper aright a little circumspection and discrimination are necessary. If the company is acknowledged to be a solid one, with a board of directors composed of well-known honourable men, we may take the notice that letters of allotment and regret have been posted to mean what it implies. But, if it is a company whose directors have no established reputation to lose, the significance of such a notice may safely be neglected altogether.

It should be observed that although the newspaper makes the statement, it is not one of those statements for which it takes any responsibility. It is a formal notification sent by the directors for publication. Except for sweet brevity's sake, all such paragraphs should really read: "We are informed by the directors that letters of allotment and regret have been posted." Your newspaper does not know—it practically never enquires—whether the addition of those words "and regret" is justified.

There is a temptation, to which unscrupulous directors sometimes succumb, to announce that

letters of regret have been posted, because it obviously implies success, and that the value of the shares should rise. It implies that the demand for them is greater than the supply, and, therefore, that they are worth more than the issue price. It is a bait let down for the unwary reader, who, being misled by the announcement into thinking there is a great demand for the shares, may buy some at a fictitious premium which has been arranged in the market. By this means he may be relieving the promoters and directors of the company of worthless shares which they have been unable to unload by means of the prospectus.

But how, it may be asked, dare the directors of a company make such a false statement? The reply is that the statement, although it gives rise to false inference, and is false in what it implies, may not necessarily be absolutely false in itself. The directors may salve their consciences by actually issuing two or three letters of regret. They may arrange with themselves or with their friends so to do. Or, among the applicants, they may recognize the names of one or two who know too much for them, company agitators or others who may prove troublesome in the chequered career which they

have already dimly mapped out for the concern.

They may thus say without absolute falsity that letters of regret have been posted. When the reader of the money article sees such a statement, he should not, without other evidence, blindly accept it as meaning that the company has been launched with every promise of success.

In issuing letters of allotment directors have no easy task, especially when the subscriptions are large. Elements which may be troublesome or harmful must be avoided; customers of the company, or those whose interest is likely to be of use to it, must receive liberal allotments. In the cases of many big issues of capital made by famous companies there has been much discontent among those who have received letters of regret instead of letters of allotment. Sometimes the oversubscription is so large that directors have to solve the problem by ballot.

Above all things directors generally seek to avoid making allotments to the "stag." A "stag" is one who applies for shares with no intention of keeping them, but who hopes to dispose of them at once at a profit. Immediately he receives the allotment, at par, he sells

at the premium quoted in the market and waits for the settlement for his profit. At times when new capital issues are in great demand the professional stag goes to great pains and employs many ingenious artifices to secure for himself a generous slice. Directors do not like him, of course. The ordinary applicant sits tight on his shares, and thus keeps up their price to the credit of the company; the stag sells his shares immediately he receives the allotment letter, or before, and thus depresses the market.

It was at the time of the railway mania, in 1845, that stags came into existence. Their task was easier then, because it was not the practice, as it is now, to demand deposit money with the application. They flourished so exceedingly that it became the custom of directors to employ some of the fraternity to advise them as to whom to avoid in sending allotments, on the principle of setting a thief to catch a thief. So that in those days, when investors were, of course, far fewer, there were not only stags, but also stag-hunters.

CHAPTER X

THE TENDER SYSTEM

Now and again a prospectus is noticed in the newspapers which offers a loan on the tender system. Such prospectuses are usually those of Government issues, of Corporation stocks, or of gas and water stocks, all high-class issues which in themselves encounter little criticism and are practically certain to find a ready market at a suitable price level. But such issues frequently meet with the suggestion that they should be offered to the public at a fixed price, and not on the tender system. The reason behind this suggestion is that, while the public will subscribe for a loan offered in the ordinary way, it hesitates to involve itself in the intricacies of tendering.

This is perfectly true; and it may be added that for every one who does not understand the tender system of issuing loans sufficiently to take an active part in it there are many more who do not even understand it sufficiently to take an intelligent interest in the matter when the announcement appears on the City page.

"Tenders are invited by the Norham Water Board for £250,000 3½ per cent 'C' ordinary stock. Minimum price of issue, £110 per £100. Yielding at that price £3 2s. per cent. The stock will be allotted to the highest bidders." The announcement is usually made in something like this style, adding where the forms for tenders to fill up may be obtained and when and where they are to be handed in. Sometimes brief particulars of the activities and revenues of the issuing body are also given.

Now, if this Norham Water Board had simply invited applications for its 3½ per cent stock at 110, all would be plain sailing. The small investor would judge for himself whether the stock was worth the price or not; if he had £220 to invest, he would send in his application for £220 worth of stock and await the allotment. But under the tender system the company does not offer the stock at £110—it offers it at a minimum of £110; it will not take less, but it will take as much more as the investor cares to give. Thus, instead of fixing the price, it leaves the investor to fix it for himself. He is in a quandary. If he tenders at £112 10s., he may find that so many other investors have offered

more that he gets none of the stock at all; if he offers £116, he may find that he gets all the stock for which he applied, but that many others have got all the stock for which they applied at £114 10s.

The ordinary company seldom issues its shares, or even its debenture stock, on this tender system; but it is still favoured by some of the Dominions in issuing loans and by Public Boards. The reason why it is so favoured is obvious. The policy arises from the laudable desire to get as much for the stock as possible. It is like offering the stock by auction with a reserve price; but it is a blind auction. No one knows what his competitor is bidding, and it frequently happens that some poor unversed investor tenders at a ridiculously high price, say 135, and, to his great chagrin, subsequently finds out what a fool he has been. But such cases are good for the borrowers, and many of them adhere to the tender system.

The reader of the City page, when he sees an announcement that tenders are invited for a loan, ought to remember the syndicates who always tender. They are formed of expert financiers who are able to gauge, from the credit of the issuing body and from conditions in the

money market, what price ought really to be offered. They are "on" practically every loan offered by tender immediately. They usually send in tenders at several different prices as low as they dare, but still high enough to ensure their not being completely left out in the cold, even if the stock goes at a comparatively high price.

Sometimes, but not often, these syndicates find themselves utterly outbid. Their experience and acumen usually assure them a good deal of the stock at the lowest possible prices, and they then unload it at a profit on those who have tendered unsuccessfully or on those who have not tendered at all. Many people, indeed, prefer to buy the stock in the market after the issue has been completed rather than go through the intricacies of the tender system.

Well, at a certain hour at the appointed place the tenders are opened—usually at a bank. Those of the syndicates especially are not sent in till the last moment, to allow of the amplest opportunity of gauging the state of the money market; besides, there is an instalment to be paid with the tender. Accordingly, in due time some such announcement as this appears in the newspapers: "Tenders for £250,000 Norham

Water Board $3\frac{1}{2}$ per cent 'C' ordinary stock amounted to £1,115,000. The lowest tender to receive an allotment was £114 5s., while the average price realized was more than £115. Allotment letters and unaccepted tenders have been despatched."

Does the phraseology of this announcement, so often seen in the papers, present any difficulty? Its meaning is simple. So many people sent in tenders for the stock, or the syndicates sent in tenders for such large amounts, that the total of the tenders was £1,115,000. As there was only £250,000 to allot, tenders for £865,000 got nothing at all, and, of course, these were the tenders of those who applied at the lowest prices. When the tenders were opened, they were arranged in order of the price offered. Our inexperienced friend who offered the much too high price of £125 got the small amount he wanted; it was allotted to him with a smile. So did the next batch of people, who offered, say, £116, and so on, but, by the time that the tenders at £114 5s. were reached, it was found that there was not enough stock left to go round. There was enough to give them a proportion of what they asked for, and this they got. That used up all the stock and the other tenders,

below £114 5s., got nothing at all. The matter may be expressed in figures thus—

Amount Tendered	Price	Amount Allotted	Yield to Issuing Body
	£	£	£
200	125	200	250
49,800	116	49,800	57,768
60,000	115	60,000	69,000
90,000	114½	90,000	103,050
200,000	114¼	50,000	57,125
250,000	114	*Nil*	*Nil*
225,000	113½	*Nil*	*Nil*
225,000	113	*Nil*	*Nil*
125,000	112½	*Nil*	*Nil*
£1,225,000		£250,000	£287,193

In the case of a real list there would be many more varying prices, but this suffices as an example. The line was drawn at £114 5s. for the reason we have seen. Tenders at that price get 25 per cent of their applications, all the stock there was to go round after satisfying the higher tenders. It will be seen that the total amount obtained by the company was £287,193, or £12,193 more than it would have got had the stock been issued at £110, the minimum price at which it was announced that tenders would be considered.

CHAPTER XI

REGISTERED AND INSCRIBED STOCK, BONDS TO BEARER, AND COUPONS

OPPORTUNITY may be taken of the mention of Government, Corporation, and Colonial stock to say a word about inscribed stock, about bonds to bearer, and about coupons, which are mainly related to these high-class investments.

The prospectus of a Government loan often states that the loan will take the form "either of inscribed stock or of bonds to bearer." It shows that if, because of patriotism or profit, or both, you have subscribed for some of the loan and accordingly receive a "scrip certificate"—which is merely a document showing of what amount you are the possessor—the stock which this scrip certificate represents can be "inscribed" as soon as all the instalments have been paid. Sometimes it also says that the scrip certificate can be exchanged for bonds to bearer after a certain date.

The prospectus may further say that bonds to bearer will have coupons attached; that the inscribed stock may be exchanged for bonds to

bearer; or that the bonds to bearer may be inscribed. Inscribed stock, bonds to bearer, and coupons are often the subject of reference in the City pages of the newspapers, and they are therefore worthy of a moment's clear consideration.

If the stock which you hold is "inscribed" your name is inscribed in the books of the Bank of England or other bank which manages the issue. You yourself are provided with a "stock receipt," which is simply an indication that this has been done. In itself it has no money value. The inscription in the books is what gives you your title to the stock. You may lose all the papers you have had in connection with the matter, yet there stands your name, and you are the holder. If you want to dispose of inscribed stock, to transfer it to someone else, formalities are necessary. You must attend at the Bank to make the transfer, with a broker to identify you, or else you must sign a power of attorney authorizing the broker to transfer the stock on your behalf.

Generally, inscribed stock may be dealt with in any amounts. It is not necessary always to deal in round sums such as £100 worth, or £10, or £1, worth, as in the case of shares. You

may buy or sell say £29 7s. 1d. worth, or any odd amount. With some inscribed stocks the minimum amount is fixed, inscription of any smaller amount being refused, so that you cannot buy or sell it. But generally you are allowed to add small amounts when you already hold the stock; you can, for instance, add, even to the odd pence, the dividends received on it. Inscribed stocks almost without exception are stocks of the very highest rank.

In the case of registered securities, which compose the great mass of British stocks and shares, your name is entered in the register of holders and you receive a certificate which has to be produced if you wish to dispose of your investment. If it is a registered colonial or corporation stock with which you wish to part, a special form of transfer is generally needed.

Bonds to bearer are very different. Foreign Government stocks are usually represented by these. American Railroad Bonds also are generally bonds to bearer. When you hold these bonds your name is not registered in the books of the Government or of the company any more than your name is registered in the books of the Bank of England when you hold one of its five pound notes. Thus, if you lose bonds to bearer, you

have no inscription in the company's books to fall back upon; it is just like losing bank notes.

If you want to dispose of bonds to bearer the process is consequently much more simple than if you want to transfer inscribed stock; the bonds are just handed over with very little formality. But obviously bonds to bearer must be dealt in as a whole, whatever their "denomination," whether they are £5 bonds, or $50 bonds, or £20 bonds. You could not buy or sell a bit torn off to represent £29 7s. 1d. or any odd amount. Then, of course, the cheque for interest on your bearer bonds cannot be sent either to your address or direct to your banker. The managers of the issue do not know your address; they do not even know who holds the bonds, which, being bonds to bearer, pass from hand to hand. It is in payment of interest that the coupon plays its part.

Coupons are tickets detachable from these bonds to bearer, each representing a certain interest payment. Suppose the bond is a £100 bond, redeemable thirty years after issue, bearing 5 per cent interest payable half-yearly. Then attached to the bond when it is new there will be sixty tickets, each bearing a different date in succession, showing when each £2 10s.,

the half-yearly payment, is due. When the interest date arrives the holder of the bond will detach the coupon and present it at the address, which the bond always indicates, where payment is to be got. Or he will pay it into his bank like a cheque, and the bank will collect the money for him. Notices that coupons on such and such bonds bearing a certain number or a certain date will be payable at the offices of Messrs. So and So, are frequently inserted in the newspapers by the financial agents of companies part of whose capital the bonds represent.

Having obtained a very good idea of what a coupon is, and also of the meaning of bonds to bearer and of inscribed stock, it only remains to remark on a curious blending of the different ideas expressed by the terms with which we have been dealing. In some cases bonds, although registered and thus not transferable except by deed, have coupons attached which are payable to bearer and which can be passed from hand to hand. Again, in the case of some kinds of shares, principally American, the share certificates are registered in the name of the original holder, yet they also bear a form showing that they may be transferred from hand to

hand, such transfer usually being effected by simple delivery after the original holder has endorsed in blank. But, although the shares may pass from hand to hand, the dividend is paid by the company to the registered holder, and must be collected by other holders from him; and he has the voting power in the company which the shares bestow. The company, in fact, scarcely recognizes any holder but the original one.

These registered bonds with coupons payable to bearer, and these registered shares which are really bearer shares, show that besides inscribed or registered stock and bonds to bearer, there are various species of cross-breeds between the two.

CHAPTER XII

REDEMPTION DRAWINGS AND SINKING FUNDS

IN the City news we frequently meet with allusions to redeemable stocks, amortization, redemption drawings, sinking funds, drawn bonds, and other terms of the same relationship—for these are all closely related—terms severely technical, but simple and interesting after a little explanation.

Trying to find a suitable investment amid a number of stocks, one may easily come across a couple upon which exactly the same rate of interest is paid, which afford practically equal security for the due payment of such interest, and yet are quoted at widely different prices. At first sight anomaly suggests itself, but on a little closer examination it will probably be found that one of the two stocks, which are otherwise on exactly the same footing, is redeemable, while the other is irredeemable; or that one of them is redeemable in two or three years' time, while the other is not redeemable till many years hence. This makes all the difference to the price.

A redeemable stock is one which will be paid off, in which our investment must sooner or later cease. We shall go on drawing our interest till the date of redemption, but when that date arrives our capital will be paid back. However much we may desire to continue, however convenient it is to receive the nice steady income from the interest payable on a certain day, we shall be obliged to take our money back and look for a fresh investment. Nearly all corporation stocks are in this category; for the Government now makes our municipal authorities pay back their loans within a certain time.

Irredeemable stocks are exactly the opposite. On these the borrower goes on paying interest for ever. Or, at all events, interest is paid till the stock can be bought back in the market, or till terms can be arranged with the holders. Corporations which long ago issued irredeemable stocks have sometimes regretted their policy. Finding they can borrow money at a cheaper rate than that at which they have to go on paying, they try to rid themselves of the burden. But, for the very reason of their improved credit, and even because of the high rate of interest they undertook to pay for ever, the

stocks are tightly held. They cannot afford to buy them back at the high prices necessary to induce holders to part with them, and when they propose terms and threaten an endeavour to enforce them, the holders not unnaturally raise the charge of confiscation.

But, in the case of redeemable stocks, there is always going on a process of "amortization"—preparation for the eventual death of the loan. The corporation, the foreign government, or whatever body is the borrower, besides paying the interest on the stock, is regularly setting aside a certain sum of money to enable the debt to be amortized—to buy it back, to pay it off, to redeem it. How much it is necessary to set aside in order to redeem the loan in a given time is a matter of calculation. The fund to which such sums are put until such time as they are used to amortize or redeem the stock is called a "sinking fund."

There are various ways in which redeemable stock or loans may be paid off. One way is to allow the sinking fund to accumulate at interest until, as originally arranged, it shall equal the amount repayable at the due date. Another way is to use the sinking fund in purchasing back the stock whenever the state of the

market is advantageous because the price is low. But the way of effecting liquidation of debt of which we most frequently read is by means of redemption drawings.

This process of redemption drawings is very usual with Foreign Bonds. When the bonds are issued, it is announced that so many of them will be drawn for redemption at a certain price at certain periods. The borrowing country determines to apply so much every year, say, to redeeming the bonds, and there is no better way of deciding which bonds to redeem than by chance or lot. It is our old friend the lottery. All the bonds bear numbers; corresponding numbers are mixed up in a bag or in a lottery wheel, and the numbers are drawn until bonds are represented equal to the amount of amortization money that the borrowing body has to use. These bonds are then "drawn bonds," a term of which we often hear. Their numbers are advertised, and, if you hold bonds subject to redemption drawings, it is necessary to see whether they have been drawn and ought accordingly to be sent in for repayment. Your bank will watch the lists for you and will collect the capital which your drawn bonds represent.

The holder of bonds in which redemption

drawings take place may thus find his investments continued for years, or he may at any of the drawings be paid off suddenly. The price at which the bonds may be paid off, having been drawn, naturally has effect on their market quotation. Even with a stock redeemable at one operation several years hence, the fact of the gradual approach of the redemption affects the price, and must be taken into account by the investor when considering his "yield." For instance, if a stock is redeemable four or five years hence at par, as it will then be worth 100, no more and no less, it is not likely to move very wide of that mark meantime.

Or, say an investor pays 106 now for a stock which is redeemable fourteen years hence at par; in counting the interest which it yields him he must always bear in mind that he is gradually losing the £6. A stock bearing 7 per cent interest, bought at 106, would, if irredeemable, yield him £6 12s. per cent, but, if it were redeemable on the terms just stated, he would need to set aside a small sum each year out of his interest if he wished to make up for the capital loss of £6 which he would incur on the stock's redemption. It may seem a small matter, but these considerations affect both

the market and the purse: they should not escape the investor's attention.

Sometimes, when the terms of a loan authorize redemption at any date between, say, 1940 and 1960, the investor has to take into account whether the borrowers are likely to pay back the money as soon as they can, or whether they will let the loan stand for as long as they are allowed to keep it. Of course, if money is cheap and the borrowers can therefore borrow cheaply, they will almost certainly take the former course, replacing their more expensive loan by another borrowed at a lower rate of interest; but, if money is dear, they will probably retain the money to the latest date allowed and perhaps thereby effect a saving.

CHAPTER XIII

ABOUT THE LIST OF PRICES

IT often happens that he who looks at the City page in his newspaper and notes there the price of a security which he holds and would like to sell, or of a security which he would like to buy, is astonished to find that his broker is unable to deal at the price given. This may be because the stock is a rapidly fluctuating one; or because the price in the newspaper is nominal; or because it is utterly erroneous, which, because of the system of obtaining prices for publication, is unfortunately sometimes the case. But, whatever the cause, the disappointment of the reader is often keen, his complaint is sometimes bitter, and it may be worth while to say something to shed a little light on the long lists of prices which form the chief item of a newspaper's City news.

One of the sources from which prices are collected for the City page is the Stock Exchange Daily Official List. This is issued under the authority of the Stock Exchange Committee, which is alone responsible for its publication.

It is a most forbidding-looking, closely-printed publication; but a place in its lines is desired by nearly all companies.

All shares and loans that have run the gauntlet of the Stock Exchange Committee's scrutiny, and only those, are quoted in its columns. Quotation in the Official List does not mean that the security is a sound one, but it does mean that it is probably of some importance, and that its sponsors have complied with certain formal requirements of the Stock Exchange Committee. The list not only gives the latest prices, but also certain particulars relating to each security and the quotations at which business has been done. People will sometimes be found saying that only so many bargains were marked in such and such a security, thereby implying that dealing has been slack; but, as a matter of fact, such a contention is most unsound.

Not all bargains, or business done, are marked in the Official List. There are, indeed, those who cynically allege that the brokers mark their bad bargains only, so that, if their clients find fault with them, they can point to the Official List in self-defence. However that may be, we must not attach much weight to inferences that

business has been slack because so few bargains happen to have been marked.

Only the morning paper takes many prices from the Official List. The evening paper, which has to publish its prices within an hour or two of their quotation in the Stock Exchange, could not possibly wait for their publication in the Official List. It must have them telegraphed practically direct from the House to its office. For this reason it uses tape prices, so-called because they arrive in the office through a wonderful little machine which clicks them out on yards and yards of paper tape. The collection of the prices on the Stock Exchange and their supply to the City editor's room is undertaken by the Exchange Telegraph Company, which began its operations well over half a century ago. At first the Stock Exchange Committee would not give the requisite permission, but the Company was able to point to the advantages accruing from the use of the system in New York, and eventually the Committee allowed one of the Company's representatives to invade the sanctity of the House to collect prices for transmission to the outside world.

It is a difficult matter, this collection and publication of prices, and the Exchange Telegraph

Company, and any one else who attempts it, are frequently subjected to a good deal of criticism. Brokers are sometimes heard to say that the prices that go outside are "awful," whatever that may mean. It is certain that the name of a new company, with the quotation of its shares, sometimes appears suddenly on the tape, to the surprise of everybody and to their wonderment as to how it got there, seeing that the company has never been heard of before.

Quotation among the tape prices, the reader of the City page will observe, by no means gives even that prestige to a security which quotation in the Official List imparts. On the other hand, quotations for the shares of some of the biggest and soundest companies do not appear either in the Official List or in the newspaper tabulations, which nevertheless often give the prices of shares of small importance. The reader should remember that payment is often exacted for a newspaper quotation. One well-known financial paper does not conceal this practice from the public, but announces that "a charge is made for the daily quotations of shares in which there is not generally a free market."

It should be remembered, too, that the London Stock Exchange is not the only institution

of its kind in the country, and that the shares of many noted companies are quoted only at provincial centres, or at least have a bigger and freer market in their home towns. Thus Birmingham quotations are important where motor shares are concerned, and for textile shares, Manchester prices must be regarded with great respect.

Prices are often collected for the purposes of publication not only from the Official List and from the tape of the Exchange Telegraph Company, but from dealers. This is because the lists which the dealers send out every evening contain quotations collected at a later hour than those of the Official List and represent more accurately and definitely the prices at which business can be done.

Prices of securities dealt in on the foreign bourses, such as Paris, Berlin and Vienna, are cabled direct through special agencies from those centres. Elaborate codes are used to express the many prices in few figures, especially New York prices, which are of special importance because of the large business in American shares here which is swayed by the tone in Wall Street. If we overlook differences arising from the adoption of "summer time" New

York time is some five hours behind our time, so that the Wall Street opening prices arrive when our market is closing. In consequence a great deal of business in international securities is transacted after Stock Exchange hours.

This brings us to the mention of the term "street prices," which merely means prices collected in the street—Throgmorton Street—from dealers who linger to do business after the House is closed. At one period at about the beginning of the century the obstruction in Throgmorton Street actually became so great that some members of the Stock Exchange were arrested and fined. The arrests were made to affirm the legal right of the authorities to prevent obstruction, but to-day no action is taken against the throngs of brokers and jobbers who in busy times still congest the narrow and crooked street.

In New York the "curb market" (i.e. kerb-market) has left the curb and is properly housed.

CHAPTER XIV

DOUBLE PRICES AND WIDE QUOTATIONS

A RATHER cruel story was once told of the editor of one of the great morning dailies whose name was at the time in everybody's mouth. Upon his appointment he informed the City editor of the paper that thenceforward the space allowed to him must be considerably curtailed. "But how, and why?" asked the crestfallen City editor. "Well," replied the new editor-in-chief, "who cares for the City page? No one knows what it means. For instance, what's the meaning of 'Consols are quoted $58\frac{1}{4}$—$\frac{1}{2}$?' Now, do *you* know yourself?"

The story relates that the City editor, overpowered by such colossal ignorance, said nothing. As to belief in the story, one prefers to say nothing likewise; but it is conceivable that some people may not fully understand why the prices given in the papers are double prices. When the price of a thing is marked up in a shop window, only one price is mentioned; when the price of a Stock Exchange security is quoted, two prices are given: Great Western $44\frac{3}{4}$—$5\frac{3}{4}$, short

for $44\frac{3}{4}$—$45\frac{3}{4}$; or Modders $3\frac{1}{4}$—$\frac{3}{8}$, short for $3\frac{1}{4}$—$3\frac{3}{8}$. It was this double price that, according to the story, puzzled the editor-in-chief.

The explanation is very simple. When a price is quoted in a shop, the thing is offered for sale only; but, when a price is quoted in the Stock Exchange, he who quotes it is prepared either to sell the security or to buy it. If one were to walk into a shop and say, "I see those gloves are quoted at 4s. 6d. in your window; I will sell you this pair at that price," the shop-keeper would be rather astonished; but if, through your stockbroker, you go to the stock-jobber in the Stock Exchange and say, "I see you quote Modders at $3\frac{1}{4}$ to $3\frac{3}{8}$; I will sell you 100 shares at $3\frac{1}{4}$," the stock-jobber would not be astonished at all.

As we have seen in an earlier page, the jobber is the dealer who is always prepared either to sell you shares or to buy them from you. When he is asked by the broker, acting on your behalf, to make a price, he does not know whether you want to buy the shares or to sell them. He therefore considers his position and quotes two prices, one at which he will buy and the other at which he will sell.

This is a more satisfactory method of doing

business than if the jobber were asked how much he would give you for Modders because you wanted to sell them. Having the knowledge that you wanted to sell he might be tempted to put down the price against you. But he makes the price without knowing, giving you the quotation at which you can sell, and the quotation at which you can buy. Thus, when a stock is quoted $89\frac{1}{4}$—$\frac{3}{4}$, it means that you can sell it at $89\frac{1}{4}$ or buy it at $89\frac{3}{4}$; the quotation gives the selling price and the buying price. This is the meaning of the double quotation, as that editor-in-chief, and everybody else, ought to know.

In practice, when an investor sees stock quoted at $89\frac{1}{4}$—$\frac{3}{4}$, and orders his broker to sell, he may quite likely find that he will get rather more than $89\frac{1}{4}$ for his stock, perhaps $89\frac{3}{8}$; conversely, if he orders his broker to buy, he will probably have to pay rather less than $89\frac{3}{4}$, perhaps $89\frac{5}{8}$. This is due to the fact that the quotations which find their way into the newspapers and the Official Lists are generally "wider" than those actually quoted when business is being done. This leads us to the understanding of the term "wide prices" or "wide quotations," often used in financial articles.

In describing the opening of a nervous, crestfallen Stock Exchange, a report may point out that in a certain market wide nominal prices were quoted, and the price table may show the quotation of the stock of which we have been talking to be 86—8. This means that if a person wished to sell he would get only 86, whereas if he wanted to buy he would have to pay as much as 88. Such an unusually wide margin is due to the nervousness which prevails; jobbers do not want to commit themselves to business without allowing themselves a good margin of safety.

The jobber likes a wide quotation; the broker, on his client's behalf, likes a narrow one. If he had had an order to sell the stock, the broker might remonstrate with the jobber who made him such a wide price as 86—8. He would not have said that he wanted to sell, and therefore desired a higher price than 86. Without saying whether he wanted to buy or sell, he would have demanded a less wide quotation. The jobber, fearing competition, might then have quoted $86\frac{1}{2}$—$7\frac{1}{2}$, or $86\frac{3}{4}$—$7\frac{1}{4}$, or $86\frac{7}{8}$—$7\frac{1}{8}$, and the narrower the margin became, the better, obviously, the terms for the broker and his client.

In looking through the lists of prices it will

be observed that the quotations of securities which are very actively dealt in are narrow, while those of out-of-the-way securities are wide. It is naturally the case that the prices of stocks which, because of the limited market, cannot easily be bought or sold, are less favourable, or wider, than the prices of those in which the market is free. In the case of securities difficult to obtain or to sell, and in the case of all securities in a time of nervousness or panic, the jobber is not willing to commit himself to deal except at a wide margin.

That margin contains the "jobber's turn," or his potential profit. It would not pay him to spend the day in buying stock at 87 to sell it at 87 again. In a nervous market he buys it at 86 and sells it at, say, 88; at ordinary times he is quite content to seek his profit in buying it at $86\frac{7}{8}$ and selling it at $87\frac{1}{8}$, often, indeed, being satisfied with a smaller profit than that. Business between a broker and a jobber on the floor of the Stock Exchange is carried out by word of mouth and is recorded at the time in the "jobbing books" of the jobber and the broker. Even in an excited market remarkably few mistakes occur. When they happen, they are the concern only of the members themselves, since

the broker is bound by the contract with his client recorded on the contract note he issues when an order is carried out.

Sometimes the list of quotations gives only one price, the middle price, in mentioning a security; but this is only for abbreviation or convenience. To quote a stock at 87 gives the reader a fair idea of the price, but it does not tell him whether he could sell at $86\frac{7}{8}$, at $86\frac{3}{4}$, or at $86\frac{1}{2}$, or whether, if buying, he would have to pay $87\frac{1}{8}$, $87\frac{1}{4}$, or $87\frac{1}{2}$. If the price is definitely stated at $86\frac{7}{8}$—$7\frac{1}{8}$, then the reader of the article knows the exact limits of the buying and selling prices.

By the width of the margin he is able to form some idea of the condition of the market.

CHAPTER XV

EX DIVIDEND, EX RIGHTS, EX NEW, EX ALL

VERY often these words or abbreviations of them are found accompanying quotations in the list of prices. They remind us of Shakespeare's seventh stage of man: "sans teeth, sans eyes, sans taste, sans everything." There are times when a stock or share on which a dividend is about to be paid may be bought without the buyer having any right to that dividend. The price will then be marked in our money article *ex* dividend, or, for brevity's sake, *ex div.*, or *x. d.*, or even *x* alone.

It might be well if all who hold stock when a dividend is declared on it by the directors were entitled to that dividend, whether they sold the stock immediately afterwards or not. However that may be, the dividend declaration is not the dividing line. People may continue to hold the stock many days after the declaration of the dividend, and yet, if they sell it, find themselves unentitled to the dividend declared. The dividing line is the declaration in the Stock Exchange that the stock is *ex* dividend. He who sells before

then sacrifices the dividend to him who buys, even though the dividend has been declared before the transaction. Conversely, he who buys the stock only the day before it is quoted *ex* dividend will receive the amount distributed. If he buys after it is quoted *ex* dividend, he will not receive the dividend, although it is paid subsequently to his purchase. British Government stocks are as a rule quoted *ex* dividend about a month before the interest is actually paid, but they are not a good example.

Let us take a railway stock, for instance, and see exactly what happens. Soon after the end of the year the company announces that its "transfer books will be closed" on, say 15th January, for the preparation of a dividend. That means that after that day the company will not transfer stock in its books. You may sell the stock you hold if you like, but the company will continue to regard you as the holder until, having made arrangements for the dividend distribution, it opens its transfer books again and registers the buyer of your stock as its stockholder in your place. That is the meaning of the notice so often seen in the newspapers that the transfer books of a certain company will be closed from one date to another.

The railway company having closed its transfer books, the directors, on 2nd February, say, announce the dividend they propose to pay on the stock. This announcement is not complete till it is confirmed by the stockholders at the annual meeting. The directors merely recommend the dividend; it is for the stockholders to say whether it shall be paid. When they have passed the resolution to that effect at the meeting, say, on 16th February, the dividend is officially declared, and on the first Stock Exchange settlement day after that, say, 23rd February, and not before this settlement day, the stock is quoted *ex* dividend. The dividend is not actually paid; the stockholder does not receive his dividend-warrant (that is, his cheque) till, say, 26th February.

Now this little mark, *x. d.* which appears against the price of the stock on 23rd February, is obviously of considerable importance. You, a stockholder, may attend the meeting of the company at which your directors congratulate you upon receiving such a satisfactory dividend. As you were a registered stockholder of the company when its transfer books were closed, the directors will also send you the dividend, whether you subsequently sell the stock or not.

But if you sell the stock before it is marked *ex* dividend, then, despite the congratulations, and despite the receipt of the cheque made to your order, the dividend money is not yours; you have to pay it through the brokers to him who has bought the stock. An application is sure very soon to remind you of the fact.

It follows that when a price is quoted *ex* dividend it shows a sudden fall equal to the amount of dividend payable. If the dividend declared by the railway company is at the rate of 4 per cent, then the sum of £2 is payable for the half-year. If on 22nd February, therefore, the stock is quoted 160 "*cum* dividend"—mark the term invariably used—the next day, 23rd February, when it is quoted *ex* dividend, it will be worth, other things being equal, only a fraction over 158, the amount of the dividend, less tax, having been deducted. You can sell it on the 22nd for 160 and pay over the £2 dividend to the buyer, or you can keep the £2 dividend by selling it after the line is drawn at 158—very nearly the same thing.

It will be easily understood that all through the half-year, from the moment the stock is quoted *ex* dividend, its tendency will be to rise, because the next dividend distribution comes

nearer and nearer every day. If no other influences whatever affect a 4 per cent stock which stands at 158 the moment it is *ex* dividend, it will stand at 159 at the end of three months, because 1 per cent of the dividend has accrued. The City article sometimes speaks of the "accrued dividend," and that is the meaning of it. Without other influences the stock will of course stand at 160 the day before it is quoted *ex* dividend, and at 158 again immediately afterwards, the half-yearly £2 having then been taken off and the stock being *ex* dividend.

Because of the distance between London and South Africa, and all the communications that have to pass when a dividend is declared, it happens that two, or even three months may elapse between the time a dividend declaration is made on Kaffir mining shares and the time when their price is quoted *ex* dividend. Therefore, as the dividends on the best Kaffirs are substantial, this matter of *cum* or *ex* dividend is of material importance and a buyer of Kaffir shares should make sure whether he is entitled to the dividend or not.

Having made it clear in what way *ex* dividend means without dividend, such terms as *ex* rights, *ex* new and *ex* all, require little or no explanation.

Sometimes shares carry with them the right to an allotment of shares in, say, another company—"rights." Sometimes they carry with them the right to subscribe for new shares in the same company at a lower price than the market price—"new." Sometimes they carry with them both these privileges and some others—"all." If you sell when the shares are *ex* these privileges, you retain them, and get a lower price; if you sell when the shares are *cum* these privileges, you sacrifice them and get a higher price.

Generally you can sell your rights while retaining the shares that entitle you to them. You sign a "renunciation form" which is provided, and hand it to your broker who obtains for you its worth in cash. That is what is called in financial parlance "renunciation of rights"; it would be so called, indeed, in other spheres of activity.

CHAPTER XVI

ABOUT SETTLEMENTS

TWICE a month the City articles contain references to the Stock Exchange settlement. In the Stock Exchange, as in other departments of life, there is a day of reckoning, a day upon which stocks bought must be paid for, and upon which stocks sold must be delivered. As a general rule there is little ready-money business in the Stock Exchange, although on occasion huge parcels of Government Stock have been sold and the money paid within twenty minutes. Except in the Consol market, all bargains are settled fortnightly, unless the fall of some public holiday makes a three weeks gap (a "long account") expedient.

When you buy stock, you do not, as a general rule, pay for it, and, when you sell stock, you do not deliver it till the next settlement. The settling days occur fortnightly, the exact dates being fixed, well in advance, by the Stock Exchange Committee. The newspapers usually show, each day, when the next settlement will occur. The settlement is often referred to as

the account, and the settlement days as account days; but this is rather loose. The account is really the period of about a fortnight between one settlement and the next. Sometimes, as has been said, when national holidays intervene, there is a nineteen-day account: the superstition still persists that this is unlucky.

There are three operations connected with the settlement, to which four days are devoted. The first day is called continuation day, or contango day, or carrying-over day, because by that day the broker has to find out whether the client intends to pay for the stock he has bought, or deliver the stock he has sold, and thus close the bargain; or whether he intends to continue or carry over his bargain by paying that contango rate or backwardation rate mentioned in a preceding chapter.

The second and third days are called ticket days, or name days, because in the Stock Exchange tickets have to be passed bearing the names of those who have bought and those who have sold the stocks in order that the transfers can be prepared. It is a part of the necessary mechanism which concerns the members of the Stock Exchange and their clerks only.

The fourth day is pay day. Its object is

sufficiently expressed in its title—it is the real settlement day.

In connection with the settlement, the financial article frequently refers to the making-up price, and the first day of the settlement is sometimes called making-up day, as well as continuation day and contango day. The making-up price of each stock is fixed by an official of the Stock Exchange under certain recognized rules. In the case of certain stocks it is the average price ruling between certain hours on the continuation day; in the case of others, it is the actual price—the middle between the buying and the selling—ruling at a certain fixed moment on the continuation day.

The fixing of making-up prices is necessary only for those who are continuing their bargains. He who has bought stock and does not wish to pay for it at the settlement has to send his broker a cheque for the "difference" if the making-up price is lower than that at which he bought; he receives a cheque from his broker if it is higher. Conversely, he who has sold stock and does not wish to deliver it has to send his broker a cheque for the difference if the making-up price is higher than that at which he sold; he receives a cheque from his broker if it is lower.

His broker will arrange to find "takers in" who will lend the money to pay for the stock in the first case, or "givers on" who will lend the stock for delivery in the second case. That is where contango rates and backwardation rates are needed.

When a person who has sold stock can neither deliver it nor arrange thus to carry it over at the settlement, an official of the Stock Exchange buys it in formally and openly for the lowest price at which it is offered, and he who has sold has of course to bear the expense. We occasionally read of "buying-in" following a settlement and also of "selling-out," which is the reverse. Besides the ordinary settlement, the time of reckoning for the great mass of securities, "special settlements" are granted by the Stock Exchange Committee in certain instances.

Immediately one account is ended by the fortnightly settlement, another account begins. It opens at noon on the first settlement day, or contango day, and the papers begin to talk of "dealings for the new account."

On the fourth settlement day, or pay day, they sometimes have to talk, alas! of Stock Exchange failures. The unfortunate member has to admit that he cannot meet his engagements, and it is then the duty of one of the

waiters, on receiving instructions from the Committee, to announce the defaulter's name. This he does after commanding the silence of the House by striking three blows with his wooden hammer on his desk. The member is said to be "hammered."

CHAPTER XVII

THE RETURN OF THE BANKERS' CLEARING HOUSE

"THE return of the Bankers' Clearing House for the week ended 15th October shows that the amount of bills and cheques cleared was £793,509,000. This represents a decrease of £124,780,000 compared with the corresponding period of the last year."

A brief paragraph, something like this, is seen in the evening paper every Thursday, and in the morning papers every Friday. It is usually passed over with little concern; but, although, its interest may be more or less academic, it is a pity to ignore it. Let us see what it means.

The return is issued on Thursday always, about the same time as the return of the Bank of England, each being made up to Wednesday night.

This Bankers' Clearing House return, this £793,509,000, is the sum total of the payments of the people by cheque and bill during the week, less payments by cheque which are "married," i.e. cancelled out, by banks among their own customers, and those by cheques which are collected

or cleared locally. You give a bill, payable in three months, to the wholesale house for goods supplied; you receive a cheque from your customer in payment of goods sold to him; you send a cheque for a guinea to your local charity —in each case the amount may go through the Bankers' Clearing House. Why?

The respective banks of the wholesale house and of the local charity will come upon your bank for the money; and when you have banked the cheque received from your customer, your bank will come upon his bank for the money. Multiply by millions—for you are not the only person in the kingdom—and you see a picture of every bank presenting many bills and cheques on every other bank in order to get payment.

Now, if you owe a friend £5, and he owes you £10, it would be absurd for him to come to your house and pay his debt, and for you simultaneously to go to his house to pay him yours. It would save time and trouble if both met at some convenient place half way, and he paid you £5, thus settling matters. That is the principle of the Bankers' Clearing House. There officials from each of the banks meet and hand in lists showing what each bank owes to, and what it has to receive from, the other banks; the

lists are set off against each other, and those banks which have to receive a balance are given a cheque, by those who have to pay it, on the Bank of England, where every bank keeps an account.

The principle of settling a great many cross transactions by one is so simple that it must always have been obvious. As a matter of fact the Bankers' Clearing House was established as late as 1775, for the use of a few City bankers. In 1854 the joint stock banks were admitted as members. In 1859, mainly through the exertions of Lord Avebury, then Sir John Lubbock, a system of country bank clearing was instituted. The Bank of England did not join the circle until 1864.

Practically all the banks enjoy the facilities of the clearing, for, although they are not all members of the Clearing House, those that are not take for their agents those that are, and thus get their cheques and bills passed through. The system facilitates business so much that there have been established local bankers' clearing houses in Manchester, Liverpool, Birmingham, Newcastle, Bristol, and other important provincial centres. Like that of the London Bankers' Clearing House, the returns of the provincial clearing houses appear in the morning papers on Fridays. It may be conveniently

mentioned here that there is a clearing house for stocks and shares in the Stock Exchange.

In the great Bankers' Clearing House, just off Lombard Street, to which our next paragraph refers, clearings occur three times a day, at 10.30 for bills, at noon for country cheques, and at 2.30 for bills and cheques. The amounts involved are, of course, stupendous. The figure for the week to which we have referred is £793,509,000. This is about £120,000,000 sterling every day, even if we include Sundays. Of course, to transact such a volume of business would be impossible but for the aid of the Bankers' Clearing House.

The bank clearings paragraph in the newspaper on Friday morning is thus not so uninteresting after all. But its great value lies in its indication of whether trade is active or inactive, whether it is falling off or improving. If heavy payments are being made, it is an almost certain sign that trade is good. The Bankers' Clearing House return is one of the four great indicators of the state of trade—the other three are the Board of Trade returns; the railway traffic returns; and the weekly labour statistics, showing the number of insured persons out of work.

CHAPTER XVIII

THE BOARD OF TRADE RETURNS

FOREIGN trade returns are issued by the Board of Trade in the second week of each month, and then it is that our newspapers analyse them, or, at worst, summarize them. To such an extent does this analysis explain itself, that little need be said in explanation. A few points may usefully be made clear.

What, for instance, are usually called the re-exports are, it should be distinctly understood, the goods we sell to foreign customers after having bought them from foreign suppliers. They are goods transhipped. It is a form of trade in which we play the part of the mere middleman. As distinct from these, the exports proper are the goods with which we supply our foreign customers, having made them, or produced them, ourselves, say, coal or iron, or manufactured cotton in the form of sheets. The imports are the goods which we buy from foreign suppliers, always including Colonial suppliers, for our own consumption, say, tea and raw cotton. The returns are collated from

the return which the individual import and export merchant and shipper has to make to the Government official regarding each transaction.

In virtually all cases both the quantity and the value of the various kinds of goods imported, exported, or re-exported—the three classes of foreign trade—are given in the returns. In analysing them for the public, however, the newspaper frequently refers to the value only. This may serve all practical purposes, but the reader should remember that there is such a thing as quantity as well. For instance, our imports of grain and flour in October, 1930, were £6,878,398, less by £4,123,345 than our imports of grain and flour in 1929. That did not mean that we imported a very much smaller quantity, but we paid less for our grain and flour because they were cheaper. When he is given a string of values only, the reader should bear in mind this question of quantity.

It may be said by the careless that these points and these big figures are of little practical use to the man in the street, but if the news is worth reading at all it is worth reading with intelligence and with interest. "If we make

ourselves too little for the sphere of our duty," said Burke in a remarkable passage, which the premier financial journal, *The Economist*, has taken for its motto, "if, on the contrary, we do not stretch and expand our minds to the compass of the object, be well assured that everything about us will dwindle by degrees, until at length our concerns are shrunk to the dimensions of our minds."

The idea that the Board of Trade returns—they are usually dignified with that title, although the Board of Trade makes returns other than those relating to our foreign commerce—the idea, I say, that these Board of Trade returns are only of academic interest is the idea only of the ignorant. In the first place, the prosperity of our country and of every individual in it is based upon our commerce; in the next place, these commercial returns are of the utmost practical use to those engaged in the various departments of trade with which they deal; and, in the third place, even the man in the street, much more the investor, may find a good deal of direct use to him in the figures and their analysis.

He may rest assured that the market on the Stock Exchange in which his textile shares are

dealt in will sooner or later show the effect of good or bad trade returns, for if our exports of cotton and woollen goods have been bad, it must have been bad for the cotton and woollen industries in Lancashire and Yorkshire. He need not concern himself closely with the big figures of our food imports, unless to wonder whether or not our country is making or losing money. It will be noticed in the trade returns that the cost of our imports is always very much bigger than the amount we get for our exports; but our national income is not measured altogether by the extent of our export trade, though our exports, of course, are very important to us indeed. Without them we should long ago have been bankrupt.

The balance between the imports and exports is made up, nearly made up, or more than made up by what are known as the "invisible exports." There are very big items of national income, such as the earnings of our shipping and the return on money invested abroad, which find no place in the Board of Trade returns. Expert statisticians are always trying to find out how much these unrecorded incomings amount to.

CHAPTER XIX

THE RAILWAY TRAFFIC RETURNS

SOON after the end of every year your paper begins to announce the final dividends proposed by the directors of the great British railway companies. Shortly after that it summarizes and analyses the reports issued to the stockholders. Soon after that again the proceedings at the meetings of the companies are chronicled, and the railway year is finished with. At least it is done with as far as the news is concerned; to the railway stockholder there remains the not unimportant function of receiving his dividend warrant.

But week by week throughout the year there appear in the newspapers the figures of the traffic returns, the traffic receipts, of the railway companies. The reader must rely solely on the published statements for these, as he must for the dividend announcements. Even to the stockholder there is no direct communication from the company; the companies content themselves with issuing to the stockholder the yearly report and inviting him to the yearly

meeting to discuss the affairs of the company. In the old days some of them maintained the courteous practice of allowing him his fare thither. The dividend announcements, which precede the issue of the reports, are communicated to the Press and the Stock Exchange alone, as also are the weekly traffic returns, through the medium of the humble post-card, printed on the back with a form duly filled in by an official of the company.

These post-cards show the receipts of the company for the week from the carriage of passengers, parcels, and mails—often called the *coaching traffic*—and from the carriage of general merchandise, and coal and coke—usually called the goods traffic. They also show how the receipts of the week in question compare with those, not of the preceding week, but of the corresponding week of the previous year. Further, they show the aggregate receipts of all the weeks of the year to date, and make comparison with the total of the corresponding weeks of the previous year.

The newspaper loses no time in conveying to its readers the information thus received on the post-cards. It usually tabulates the returns so as to present them to the reader in convenient

form. These traffic return tables appear in the money page of the evening papers every Wednesday and of the morning papers every Thursday. Some newspapers only give the total receipts for the week, with the corresponding figures for last year and the aggregate figures, but the financial papers split the receipts into their respective groups. They show the sums received for the carriage of passengers, parcels, and mails; general merchandise; and coal and coke. The statistics often have an immediate effect on the prices of stocks in the railway market of the Stock Exchange.

How shall we read these returns? The natural assumption is that all is well if the company in which we are interested keeps on showing increases, but this is by no means a rule. In the first place, it must be recognized that the weekly figures are only estimates, rough estimates indeed. It is not possible for such gigantic concerns to furnish exact figures so soon after the end of the week to which they refer. When the report for the year is issued a considerable discrepancy is often disclosed between its audited figures and the figures of the weekly returns. But the weekly figures are at least approximate; they always show the tendency.

What must chiefly be remembered in reading these weekly figures is that they tell only half the story of the result of the railway's working. To tell the other half they would have to disclose the expenditure, which they never do. There was a time, long before the consolidation of the railway systems into four great groups, when two or three of the companies used to publish monthly revenue statements, showing not only the receipts, but also the expenditure, and consequently the net revenue, or profit; but those times are past. Nevertheless the big American railroads publish their net earnings figures weekly, and it is frequently urged that our railways should do so.

Whatever we may think about this, the weekly traffic returns show receipts only, and though these may display increase after increase, we may discover at the end of the year that this increase has been eaten up by a corresponding increase in expenses. Fortunately, it is not very difficult to form a rough idea at any time as to whether railway working expenses are higher or lower than the year before, the expenses being confined mainly to the three things—wages, coal, and material, and reference to such matters is frequently made in the newspapers. They are

factors which must always be considered in a study of the weekly traffic returns.

It has been said that these returns distinguish between receipts from passengers and receipts from goods, the latter in most cases being the larger item. But it is an important fact, to which reference is seldom made, that an increase in passengers is, as a rule, of greater advantage to the stockholder than an increase in goods. A moment's consideration will show why. Passenger trains have to be run full or empty and the same expense incurred. Passengers, unlike goods, move themselves at terminals or stations. An increase of goods means more labour, more wear and tear, more expense. An increase of passengers may mean very little of either. But any increase of goods is welcome, and the goods receipts are the better indication of the condition of the trade of the country.

The returns of each railway are affected by the characteristics of the district which it serves. The Southern Railway, for instance, depends largely on general passengers, continental and holiday traffic; what are called the heavy lines, like the London Midland & Scottish and the London & North Eastern, because their capital and everything about them is heavy, depend

more upon the staple industries of the country, like coal and cotton and iron. The Great Western's returns depend a good deal on conditions in the South Wales coalfield.

We must not forget the other railways run by British companies in various parts of the world whose traffic receipts figures appear in the papers along with those of the home systems. For instance, there is the great Canadian Pacific, which, we may mention, declares both its gross and its net receipts. There are the Indian railways and many big and important companies operating in Argentina, Chile and Brazil. Traffic receipts in countries like these, still young industrially, especially reflect whether the harvests are good or bad. So, if we read in the newspapers that the wheat crop on the Canadian prairies is below the average, or that the maize crop in Argentina has failed, we shall know that it is likely that the traffic returns in the ensuing months will show declines.

CHAPTER XX

COMPANY MEETING REPORTS

It certainly cannot be said that the report of the company meeting is the brightest of the features of the newspaper. It is naturally a necessary appurtenance, for what the chairman of a company has to say to the shareholders at the meeting, and what the shareholders have to say in criticism, is of much importance to the company itself, and often of importance to the whole financial world.

The company meeting is the gathering at which the affairs of the company are discussed between the directors and the shareholders; at which the directors propose the dividend for the formal approval of the shareholders, without which approval it cannot be paid; at which the directors present their report and accounts, usually published some days beforehand, for the shareholders to receive and adopt; at which the directors who retire in rotation are re-elected. That is the usual business of an "ordinary general meeting."

For other purposes, such as to increase capital,

or to sanction "reconstruction"—which too often means wiping away the past of a company to enable it to lose more money on almost the same lines—an "extra-ordinary meeting" has sometimes to be held. In the newspapers it is generally called an extraordinary meeting, and owing to the nature of the directors' proposals and the acceptance they receive it often is. Notice of these meetings is given direct to shareholders and lists of forthcoming meetings are usually published at the beginning of each week in the financial daily newspapers.

Why these company meeting reports are not the brightest of the appurtenances of the money article we shall see; the examination will show the reader how he should read them. But it may be said at the outset that instead of reading the report of the meeting of any company in which he is interested he had far better attend it, even though he is provided with a form of "proxy," a paper which enables him to vote even in his absence.

In the first place the newspapers are able to report only a comparatively small number of the company meetings held; these may be the meetings of the most important companies, but it is not the rule that the discussions at the

meetings of the most important companies are of the most importance. At the meetings of our great railway companies, for instance, the chairmen all say virtually the same thing; at the meetings of our great banking companies the chairmen, with one exception, all say virtually the same thing. It is to the small struggling company that the meeting is of the most importance, and it is the report of this meeting which often fails to find a place in the columns of the newspaper.

It will also be found that many newspaper accounts of company meetings consist mainly of the chairman's reiteration of the facts and figures contained in the report presented to the meeting, a report which has been issued and commented on days before. It will further be found that most of the reports of company meetings consist almost entirely of the chairman's speech, vouchsafing little or nothing of the subsequent remarks of the shareholders. This chairman's speech is often read from a typewritten document, copies of which are supplied to the Press.

Or the directors send an account of the meeting through the secretary of the company or through its advertising agent, and this is

inserted in the newspaper as a report of the meeting. The shareholders' remarks are not so carefully circulated and do not receive the same prominence. It must be admitted that much which shareholders say at the meeting is futile, that it is the chairman's speech that matters, because the directors have their own way. But still the fact remains that the company meeting report is not improved, as a report, by the omission of criticisms subsequent to the chairman's speech showing the other side of the shield.

Moreover, the report of the meeting seldom takes note of the attendance, which is often very sparse. Such an event has been known as a reporter's being asked to move a vote of thanks to the chairman and directors, because there was no one else present to do so. Further, we do not often find it stated in a newspaper report whether a company meeting was "packed" or not, although it often is—the directors obtaining the services of as many supporters as they can to make much noise and much show of hands. Few newspaper reports convey, or attempt to convey, any adequate idea of the manner of the chairman and of the directors, and of the attitude of the shareholders,

matters which are sometimes much more eloquent than the words that are spoken. We are told now and again of a scene and sometimes of applause, and it may be taken as a rule that company meeting applause is very subdued as becomes anything connected with business. In an after-dinner speech a notorious financier once paid a tribute to the capabilities of the chairman of some of his companies, who had the habit, he said, of leading any applause he wanted by dexterously shuffling his feet under the table.

It should be fully realized that most reports of company meetings which appear in the Press are inserted in return for payment by the company. Now and again an attempt is made to print these reports in such a way as to show frankly that they are advertisements, and one of our great daily newspapers states on the reprints supplied from its columns that "Reports of proceedings under the heading 'Company Meetings' are inserted as advertisements, but care is taken to ensure that they are trustworthy."

But in most cases there is little or nothing to show that the insertion of the reports is paid for by the company whose meeting is reported. The system is no secret, or rather it is an open

secret. Providing the reader knows that the system prevails, and understands that the importance of a company is not to be gauged by the length at which its meetings are reported in the financial Press, there is no need here to debate the ethics of the practice, for it is certain that most of the important papers, weekly and daily, which accept payment in this way would scorn to insert an unfair report at the instigation of those who pay the money.

Another reason why the newspapers cannot always be relied upon to deal adequately with company meetings is because the fact of their being held is often hidden from their cognisance by directors who seek secrecy. And obviously, publicity is the most necessary in the case of companies whose directors desire, for reasons of their own, to avoid it, fearing the light of comment and criticism. Sometimes, in order to discourage the presence of newspaper reporters, the meetings are held in the provinces, or in some out-of-the-way corner of the metropolis, instead of at the office of the company, or at Winchester House or Cannon Street Hotel, the customary homes of company meetings. Or the meetings are held at an inconvenient time or an unusual hour.

It is amusing to note how hundreds of companies of the baser sort arrange to hold all their meetings at practically the same time within the period of a few days in late December. It is often difficult even for the shareholders to cope with these tactics of directors who desire to hold "hole-and-corner meetings"; much more difficult is it for the Press to cope with them.

CHAPTER XXI

THE WRITER OF THE ARTICLE

It may lead to a better understanding of how to read the City article if, in conclusion, something is said of the writer, of his duties, his difficulties, his ideals. To attempt to sketch him here is a somewhat dangerous and delicate task. To magnify one's profession by dwelling upon its importance, to discredit it by pointing to its failings—here are Scylla and Charybdis!

The scope of the writer of the City notes has rapidly extended; its growth in the past few years has been enormous. It can be seen in the marvellous increase of the number of all kinds of people who invest and speculate, tempted by the facilities which the limited liability system has afforded them, facilities of which the company-monger has taken due advantage.

To the City editor all these people look for information. Even the great growth in the number and amounts of loans and companies which offer field for investment and speculation, striking as that growth has been in recent years, does not suffice to measure the recent increase in the

scope of the work of the City editor; it takes no account, for instance, of the development of the financial interest, of the financial methods, and the financial vagaries peculiar to the present day, with which, if he would do his duty, he has to cope.

It is an age of finance. Long ago Sydney Smith said that the warlike power of every country depended upon its funds; that if Caesar were to reappear on earth he would find the Stock Exchange list more important than his Commentaries; that Rothschild would open and shut the temple of Janus. But Sydney Smith might well be astounded if he lived now.

The character and attributes of the City editor must be such that there are few who attain to them. He must be a man of business and a journalist; which is absurd. He must deal with dry affairs of statistics and accounts, yet so present his facts as to gain the interest of his readers. He must set forth his opinion in unmistakable terms, yet practise all the wiles of diplomacy in the financial circles in which he lives and moves and has his being. He must be popular, and yet a detective.

Not an atom of sentiment must warp, however insidiously, his reason. He deals in delicate

wares; business transactions, matters of money and credit, are not to be lightly treated. The City article in your newpsaper differs from every other. The writer of the general article may give rein to his imagination; with advantage to himself and his reader he may indulge in the picturesque. Leniently to praise a show or a politician may harm few or none; leniently to praise a company or a financier may wreak loss, cruel to the individual and aggregating hundreds of thousands of pounds.

Knowing all he knows, seeing all he sees, the temptation of the City editor is to become pessimistic. Besides, pessimism is so safe; prophesy evil long enough, and the prophecy in nine cases out of ten is sure to be fulfilled; loss will come as well as profit, for of such is the kingdom of finance. Again, some of us who write financial notes lack impartiality in the matter of persons. Columns were written against one scheme; the foundation of the adverse criticism, admitted by the writer, was the discovery that a certain promoter was connected with its inception. In such a case as this the possibility may be overlooked that even a company promoter may prefer to involve himself in an honest concern, if the profit to be made is sufficiently tempting.

However easy it may be to err through pessimism or partiality in the hasty decision which the City editor is so frequently called on to give in these days of journalistic enterprise, when news a day old is not news, and when financial schemes are rushed through to evade criticism, excuse can scarcely be pleaded for warped judgment over any lengthened period of time. The opportunity which the writer of important financial articles has of hearing all sides is remarkable. But wide and varied sources of information or none, the requirements of ideal City editorship are appalling.

It has been said with reason that the City editor, to do himself justice, must be detective, solicitor, advocate, judge. He must, in other words, be assiduous in collecting his financial facts, level-headed in appraising them, precise in selecting and arraying them—arraying them with fine judgment, happy equity, and a piercing sense of analysis. With these qualities the point of judgeship is reached. But of the new financial journalism the public expects more. The writer is required often to express a definite opinion on his facts. In short, he must not be merely detective, solicitor, advocate, judge, but jury as well. It is thus that some of the qualities

necessary for financial writing may be indicated. Above them all, without which they are worth nothing, are honesty and rectitude.

Enterprise must be one of the qualities of the City editor, and the journalistic instinct one of his attributes. Those items of early exclusive financial information packed quietly in, by the old financial journalism, amongst advances of eighths and declines of sixteenths, and blazoned forth by the new financial journalism at the top of a column in impressive type—those items of early exclusive financial information cost more in enterprise, in diplomacy, in money, than the reader who pays a penny for his paper imagines.

For one journal to announce that the shares of a certain company, although they stand in the market at 70s., are to be bought up at £5 is to give its readers the means of putting many hundreds of pounds in their pockets and to earn their undying gratitude and support. For one journal to announce some financial disaster before the other journals do so is likewise doing good service to its readers. To obtain by interview the opinion of a high authority on any given point at a critical moment, to lay bare the innate wickedness of

the false rumours which far too frequently upset the market, disclose material points omitted or glossed over in a specious prospectus—these things require unwearying enterprise and diplomatic tact, backed up by cheerful expenditure on the part of the newspaper. At the time of the Australian crisis following the great drought, when the banks were falling like ninepins, one financial writer actually put himself into possession of the news of the failure of one of the institutions so early that he was able to bring the London manager himself first tidings of the melancholy fact.

The private sources of information which the City editor commands are extensive and peculiar. It would be safest and very comfortable to refuse all such as is received from a tainted source. But it is his duty to his journal and his readers to take no such easy course. A hint from Satan himself—often contained in an anonymous letter—must be followed up, inquired into, weighed, and adjudged. From whatever motives the information may be given, it may have truth, it may be valuable for good, it must not be lazily, nervously rejected. When the financial scum falls out, the public comes by its own. The City editor finds it interesting

and useful to mix with all kinds of people. Thus he *must* be *not only* of sound character himself, but have sound judgment of the character of others.

But the enterprise of the City editor must be tempered with *discretion*; he deals with business, not with play, and by any rashness he would lose the confidence which business men in high financial circles repose in him, confidence which is a preliminary to his being able to speak from the heart of the financial body. Once he betrays confidence, perhaps not wilfully, but by indiscretion, he has lost the power he holds for good. There were one or two City editors who knew of the Baring collapse before it was made public to the astonishment of the world. Had one of these men dared to put his secret into print he might have sold as many copies of his paper as its machines would print; and he would have had to retire anathematized and notorious, for he would have precipitated a monetary panic which would have brought cruel ruin to thousands, from the strongest finance houses to the thriftiest bank depositor. As it was the position was quietly saved.

Financial omniscience being a requisite of the financial writer, there are one or two of us who

are not adequately equipped. It is even so, although we all have access to Burdett, as the Stock Exchange official book of reference is still called. One of the ablest and most reliable financial writers of the day frankly complains that although he can dictate hundreds of answers to correspondents, obtaining in return shoals of letters of gratitude for the result of his advice, he cannot manage his own investments with anything like success. It is an apparent phenomenon which the psychologist could probably explain with ease. The writer of the financial article frequently seeks his broker's advice, and often regrets the outcome of their combined wisdom.

The law of libel is another matter with which the City editor constantly has to reckon and which often interferes with his work of protecting the public. The unscrupulous company promoter has a habit of bringing a libel action to stop comment at a critical time, although sometimes the comment is continued despite the pending action, for the public must be defended at all risks. Again, a financier sometimes brings action for libel with no intention of carrying it on, but merely to save appearances. He can boast the action until the effect of the criticism has died away.

In criticizing a prospectus a City editor was once misled into making the erroneous statement that the promoter was connected with another company already in liquidation. The promoter brought action for libel, and gained nominal damages. The damages were nominal partly because, although the other company was not in liquidation, the new company upon which the warning criticism was written had gone into liquidation before the libel action came into court. Though the law is harsh, and the newspaper is frequently mulcted in heavy expenses, even though it win the day, libel actions are sometimes glorious.

Over the portals of the dwelling of our greatest journal, inscribed indelibly in stone, is an inscription expressing the grateful acknowledgments of the merchants and bankers of London of the industry, perseverance, and ability shown in the exposure of the most remarkable and extensively fraudulent conspiracy ever brought to light in the mercantile world. The exposure, the inscription goes on to say, shows the aid which a public-spirited and independent journal has in its power to afford in the detection and punishment of offences which aim at the destruction of all mercantile confidence and security.

That inscription is now over a hundred years old. It stands for all time to show that substantial advantage may be gained, at least occasionally, by those who know how to read the City news and realize that the money article is truly designed for their information and profit.

GLOSSARY

MANY of the technical words and phrases used in financial articles have been explained in the course of the preceding pages, and reference can readily be made to these explanations by consulting the Index. There are, however, other words and phrases needing less detailed explanation, and these, together with some abbreviations which it is useful to know, are dealt with in this Glossary.

A.I.M.M. Associate of the Institution of Mining and Metallurgy.

Assoc.M.Inst.C.E. Associate Member of the Institution of Civil Engineers.

A.M.I.E.E. Associate Member of the Institution of Electrical Engineers.

A.M.I.Mech.E. Associate Member of the Institution of Mechanical Engineers.

A.R.S.M. Associate of the Royal School of Mines.

Ad valorem Duty. A stamp duty based on a security's money value.

Anglo "A." The deferred stock of the Anglo-American Telegraph Company.

Arbitrage Dealing. Buying at one centre and selling immediately in another in order to profit by slight variations in prices.

Articles of Association. Practically, the rules or by-laws by which the financial administration of a company is governed.

Assessment. A charge imposed on shareholders in certain cases.

Average, To. To add to a parcel of stock bought at a higher price than that prevailing, so as to reduce the average cost of the whole amount.

Banging the Market. Forcing down prices by heavy sales.

Bargain. A transaction or deal; not necessarily a favourable transaction, as in ordinary parlance.

Bays. Shares of the Hudson's Bay Company.

Berwicks. London and North Eastern Railway Deferred stock.

Blind Pool. A pool when the participants hand over their money unreservedly to a leader, trusting in him implicitly to use it profitably.

Bonus. A supplementary distribution to shareholders either in cash or scrip.

Bourse. A Continental stock exchange, such as that of Paris.

Brums. London Midland & Scottish Railway Ordinary stock.

Bucket Shop. An office where a gambling business in stocks and shares is carried on by a person who is not a member of the Stock

Exchange, and against whose fraudulent dealing the client has, in practice, no protection.

Burdett. The Stock Exchange Official Intelligence, published annually.

C.E. Civil Engineer.

C.I.F. "Cost, Insurance, Freight," a commercial quotation meaning that the sender provides for insurance and freightage.

Call. A demand for the payment of an instalment due on a security not fully paid up.

Call Option. An option for the purchase of a security at a specified date at a specified price.

Canadas. Canadian Pacific Railway Shares.

Cash Bargain. A transaction in which payment is made immediately.

Chartered. British South Africa Company shares.

Coalers. Certain American railroads which depend for freight largely on the carriage of coal.

Collateral. Stocks or shares deposited by a borrower as security for a loan.

Commission. The amount charged by a broker for carrying out an order.

Consols. British Government 2½ per cent Consolidated Stock.

Contango Day. The first day of the Stock Exchange settlement, when arrangements are made to continue bargains.

Contributories. Those who have subscribed the capital of a company. In liquidation there is often a "deficiency as regards contributories"—the creditors may be paid in full, but the shareholders lose part or the whole of their money.

Coulisse. A market in Paris on which dealings in certain shares, notably South African gold and land shares, take place. It is not a part of the Bourse proper.

Cumulative Preferred Shares. If at any time the dividends on such shares have lapsed, arrears have to be made up before payments can be made on the capital ranking after them.

Curb, The. A stock market in New York, secondary to the New York Stock Exchange, though many important stocks are dealt in there.

Debenture Stock. Loan capital ranking before share capital and often secured by a mortgage.

Defaulter. A member of the Stock Exchange who fails to meet his bargains and is "hammered." His fellow-members who lose through his default do not put him through the bankruptcy court, though, of course, others may do so.

Deferred Shares. Shares not carrying the right to receive dividends till payments have been made on other share capital, preferred, preferred ordinary, or ordinary, ranking for dividends in front of them.

Deposit Rates. Rates of interest allowed by banks or discount houses on money deposited with them. The rate depends on the Bank rate.

Difference. The balance between the purchase and sale price of a security dealt in; the amount of profit or loss on a deal.

Discount (*a*). The amount by which a stock or share which has depreciated in value has fallen below its nominal value, or its issue price, or the amount paid up.

Discount (*b*). In the money market, the rate charged for advancing money on a bill.

Districts. Metropolitan District Railway ordinary stock.

Dividend. A *pro rata* division and distribution of profits to shareholders.

Double Option. An option giving the right either to buy or to sell a security at a specified price at a specified date.

English Equivalent. The actual value of an American or Canadian share in London, where, for the sake of convenience, dealings take place on the basis of $5 to the £.

F.C.S. Fellow of the Chemical Society.

F.G.S. Fellow of the Geological Society.

F.O.B. Free on board ship; also "*F.O.R.*," free on rail.

F.R.G.S. Fellow of the Royal Geographical Society.

Face Value. The nominal or original value of a security, on the face of which it is printed.

Finer Rates. Lower rates.

Fixed Charges. Standing charges, such as debenture interest, which a company has to meet before it can divide profits.

Floating Debt. Debt incurred for short periods for temporary purposes and not funded, as is the case with loan capital. The Government always has floating debt.

Floating Money. Money in the market not engaged and available for loans.

Foreclosure. Seizure of mortgaged property by the mortgagee or the holders of mortgage debenture stock.

Foreigners. Bonds of foreign governments or foreign municipalities.

Founders' Shares. Shares carrying special rights allotted to the founders of a company.

Funds, The. A general term for British Government securities.

Gilt-edged Securities. Securities of the very highest class, such as British Government and corporation stocks.

Grangers. Certain American railroads whose freights consist largely of grain.

Guinea-pig Directors. Directors with titles or well-known names who join the board of a company merely for the sake of the fees or similar inducements.

Hammered. Declared a defaulter on the Stock Exchange.

House, The. The name used by members for the London Stock Exchange.

Interim Dividend. A dividend declared usually at the completion of the half-year, before the total profit for the year is known.

Intermediate Days. The days on which buyers' names are passed between brokers.

Jungle. A nickname for the Stock Exchange market dealing in West African shares, chiefly mines.

Kaffirs. South African mining, land, and finance shares.

Lame Duck. A Stock Exchange member who has to be temporarily assisted financially to save him from default.

Leased Lines. Railways, the interest on whose securities is derived from the rent paid by other companies for the use of their systems.

Liability. In the cases of certain banking and insurance shares, a liability carried by the holders to pay up certain amounts in certain circumstances, but usually enforceable only in a winding-up.

M.Inst.C.E. Member of the Institution of Civil Engineers.

M.I.E.E. Member of the Institution of Electrical Engineers.

M.I.Mech.E. Member of the Institution of Mechanical Engineers.

M.I.Min.E. Member of the Institution of Mining Engineers.

M.Inst.M.M. Member of the Institution of Mining and Metallurgy.

Making-up Day. The first day of the Stock Exchange settlement, when prices are made-up and contango rates fixed for open bargains.

Margin. An agreed amount of cash or securities handed over to protect a lender against loss in respect of an open bargain.

Officially Quoted. Quoted in the Stock Exchange Official List.

Option. The right, purchasable for a non-returnable consideration, to buy or sell a certain amount of a security at a specified price at a specified date. See also Call Option, Double Option, Put Option.

Ordinary Shares. Shares ranking for dividend after preference or preferred shares, and on which, usually, the rate of dividend is not limited.

Outside Brokers. Stock and share brokers who are not members of a recognized stock exchange or association, and who are hence not governed by rules designed to protect the public.

Par. A security's face value or the amount paid up on it.

Pool. The combination of a number of persons to operate in one stock or several stocks. Or stocks may be pooled merely to prevent individual selling. *See also* Blind Pool.

Preference or Preferred. A class of stock or shares entitled to a fixed dividend and ranking before the ordinary or deferred shares both in respect of dividend and/or repayment of capital. Sometimes such shares entitle holders to participate in surplus profits after the fixed dividend has been paid. They are then known as Participating Preference Shares.

Premium. Opposite to Discount (*a*) (*q.v.*).

Principal. The capital sum on which interest is payable.

Put Option. An option for the sale of a security at a specified date at a specified price.

Real Stock has been Sold. Sales of stock by actual holders, as distinct from sales by bears.

Renunciation Letter. A form enabling a shareholder to transfer "rights," and usually to obtain payment for them.

Rights. An advantage, as, for instance, the right to apply for new shares at an advantageous price, conferred by a company on its shareholders.

Scrip. A document provisionally representing a certificate to be issued later.

Shop, The. The jobber, or group of jobbers, who makes a speciality of certain securities.

Shorts. Those who have open accounts on the bear side.

Signatories. Those who have signed a company's Memorandum of Association; they may be clerks or officials, and their names have seldom any significance.

Supplementary List. An official daily list of quotations of securities not figuring in the Stock Exchange Official List.

Taken up. Bought and paid for; not carried over.

Talon. A certificate sometimes attached to a bond to enable the holder to claim a new set of coupons.

Trustee Stocks. Certain stocks of the highest class in which trustees are authorized by law to invest.

Turn. The difference between the price at which a jobber will buy and that at which he will sell.

Underwriting. An undertaking, for a consideration, to subscribe for a certain amount of a new capital issue if subscriptions are not forthcoming from the public.

Vendors' Shares. Shares issued to the vendors by a new company in payment, or part payment, for properties acquired.

Wall-Street. The New York Stock Exchange.

Wild Cat. A very speculative undertaking, such as boring for oil in an unproved oilfield.

Yield. The return which interest or dividend gives an investor, taking into account the price which he has paid for the stock or shares. The yield on 4 per cent stock bought at 100 is 4 per cent; if the same stock is bought at 78, the yield is approximately £5 2s. 6d. per cent.

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